



Galaxy Resources Limited

ABN 11 071 976 442

Annual Report

Year Ended 31 December 2013

www.galaxylithium.com

TABLE OF CONTENTS

Corporate Directory	2
Chairman's Letter	3
Review of Operations	4
Directors' Report	10
Auditor's Independence Declaration	30
Consolidated Statement of Comprehensive Income	31
Consolidated Statement of Financial Position	32
Consolidated Statement of Changes in Equity	33
Consolidated Statement of Cash Flows	34
Notes to the Consolidated Financial Statements	35
Directors' Declaration	80
Independent Auditor's Report	81
ASX Additional Information	83
Tenement Schedule	85

CORPORATE DIRECTORY

Board of Directors

Mr Martin Ronald Rowley (Independent Non-Executive Chairman)
Mr Anthony Peter Tse (Managing Director)
Mr Charles Bernard Francis Whitfield (Executive Director)
Mr Kai Cheong Kwan (Independent Non-Executive Director)
Mr Jian-Nan Zhang (Non-Executive Director)

Chief Financial Officer (Interim) and Company Secretary

Mr Andrew Leslie Meloncelli

Registered office and principal place of business

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16 Ord Street
West Perth WA 6005
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Emails: reception@galaxylithium.com (General Enquiries)
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Share registries

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Fax: + 61 8 9323 2033
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The Stock Exchange Tower
Suite 3700
Montréal Quebec H4Z 1E9
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Auditors

KPMG
235 St Georges Terrace
Perth Western Australia 6000
Australia

Australian Business Number

11 071 976 442

Stock Exchange Listing

ASX Codes: GXY and GXYO

CHAIRMAN'S LETTER

Dear Fellow Shareholders,

It has been another significant year for Galaxy Resources with essential restructuring of both management and the asset base of the Company undertaken in order to ensure firstly that the Company survived and secondly to establish a sustainable strategic direction.

The Board appointed Mr Anthony Tse to the role of interim Managing Director mid-year, to replace outgoing Managing Director Ignatius Tan after his resignation in June 2013 and permanently installed him in this role toward year end. Mr Tse, along with Executive Director, Charles Whitfield has provided strong and diligent leadership as the Company has undertaken a rigorous review of its structure and operations ultimately resulting in the decision to dispose of the Jiangsu Plant in China.

The US\$230 million sale of the Jiangsu Plant (subject to regulatory and shareholder approval) subsequent to the year end will transform the Company's balance sheet and allow the Company to assess the best way to develop the world class Sal de Vida brine project from a position of financial strength. The decision to dispose of the Jiangsu Plant was made after careful consideration and analysis.

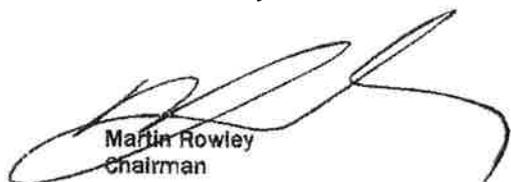
After the closure of the loss making Mt Cattlin plant in Western Australia the Company found itself in an impossible commercial situation with supply of spodumene concentrate to the Jiangsu plant dependent on short term contractual arrangements with a major competitor. This together, with the unsustainable level of interest bearing debt meant that the successful sale of the Jiangsu Plant to that same competitor is an excellent outcome for the Company.

There has also been significant focus from the Board and new management team to reduce the fixed overhead costs of the Company. A special management committee, of which I was a member, was formed in June 2013. This committee's objective was to review the Company's current business, operations and financial structure. The committee first initiated a non-renounceable rights issue, which raised funds used to partially pay down debt and provide sustaining working capital. \$60 million of convertible bonds were restructured, extending the maturity date until November 2015 and converting \$1.5 million into equity. Unfortunately a number of staff particularly in the Perth office were terminated however I would like to express the Company's appreciation for their efforts during what have been difficult times for the Company.

As we look to the future the Company will have a strong balance sheet with significant net positive cash, a world class lithium brine project in Sal de Vida and an excellent management team supported by a strong and experienced Board. This will be in an environment of very positive demand for lithium carbonate particularly with Japan growing its electric vehicle market and the Chinese government implementing an incentive policy for the new energy car.

Galaxy has emerged from 2013 as a more efficient and focused company, with a transformed balance sheet and significantly reduced overheads. I would personally like to express my appreciation of the enormous amount of time, effort and sacrifice that Anthony Tse and Charles Whitfield have put in to achieve this outcome. The Company is now well positioned to achieve the success it has been striving for in the lithium sector for the ultimate benefit of all stakeholders. I thank all shareholders for their continued patience and support.

Yours sincerely



Martin Rowley
Chairman

REVIEW OF OPERATIONS

Corporate

The US\$230 million sale of the Jiangsu Plant subsequent to the year-end will significantly strengthened the Company's balance sheet and provided scope to consider investment opportunities in a new strategic asset in conjunction with assessing plans to realise Sal de Vida production potential. The completion is subject to Regulatory and Shareholder Approval.

Board and Executive Changes

Changes were made to Galaxy's Board of Directors with the appointment of several new Directors and confirmation of Mr Anthony Tse as Managing Director. These Board changes have resulted in the recent financial and operational restructuring initiatives undertaken by the Company.

Galaxy's Board will now comprise:

- Martin Rowley (Independent Non-Executive Chairman and Director)
- Anthony Tse (Managing Director)
- Charles Whitfield (Executive Director)
- KC Kwan (Independent Non-Executive Director)
- Jian-Nan Zhang (Non-Executive Director)

Longstanding Directors Mr Craig Readhead (the outgoing Chairman) and Mr Robert (Bob) Wanless have retired from the Board. These Board changes were effective as at 28 November 2013.

In addition, Mr Andrew Meloncelli has been appointed interim CFO, following the resignation of Mr John Sobolewski, who has stepped down to pursue other business interests. The Board wishes Mr Sobolewski well and recognises the valuable service he has rendered over the past five years with the Company. Mr Meloncelli is the longstanding Company Secretary of Galaxy, having joined the Company in November 2009, providing the company with continuity of knowledge in the position.

Bonds Conversion

The conversion window for the \$61.5 million in convertible bonds ("Convertible Bonds") on issue closed on 22 November 2013. Of the outstanding Convertible Bonds, \$1.5 million were converted into equity at \$0.08 per ordinary share, on the same basis as Entitlement Offer which closed in November 2013.

The remaining \$60 million in Convertible Bonds have now reverted to a two year maturity date of 19 November 2015, with the coupon rate increased from 8% to 10% per annum. No other terms changed.

The conversion window resulted from the restructure agreement reached with the Convertible Bond holders as announced on 26 July 2013. This agreement amended the final repayment date to Convertible Bond holders from November 2013 to November 2015 and provided Galaxy the flexibility to repay part or all of the Convertible Bonds prior to 22 November 2013 or, the Convertible Bond holders an opportunity to convert to Galaxy shares and options on the same basis as the Entitlement Offer, during the three business days window up to and including, 22 November 2013.

With the conversion window now closed, the right to convert the Convertible Bonds into equity on the same terms as the Entitlement Offer (for either Galaxy or the Convertible Bond holders) has now expired. The Convertible Bonds now revert to the previous conversion terms, with an estimated conversion price of \$0.922 per share.

Closure of Canadian Ordinary Share Register

The Company's Canadian Ordinary Share Register ("Canadian Register") held by Computershare Canada has been closed. The effective date of the termination and closing of the Canadian Register was 28 February 2014.

As a result, no further share movements can occur between the Canadian and Australian registers after 28 February 2014 and all shares remaining on the Canadian Register will be automatically transferred to the Australian Ordinary Share Register ("Australian Register").

Galaxy's shares do not trade on a Canadian securities exchange and the shares held on the Canadian Register represent less than 3% of Galaxy's issued capital. As such, the Company has initiated the move to reduce administrative time and cost burdens.

No change has occurred to Galaxy's ordinary shares on the ASX, which continue to be listed as normal. The Branch Register for Exchangeable Shares will continue to be maintained in Canada.

Rights issue

The Company targeted raising \$46.7 million in a non-renounceable entitlement offer (Entitlement Offer). With the initial round of subscriptions and subsequent shortfall placement, Galaxy completed and settled a total of \$34 million in funds from capital raising since 1 July 2013. This also included a small contribution from listed options expiring 31 December 2014 already being exercised.

During the course of the Entitlement Offer, the Company engaged with several large strategic investment institutions to subscribe for a substantial equity position in the Company. The proceeds from the raisings to date have been used to bolster the Company's balance sheet through partial debt pay down or rescheduled near term payments due under its total of \$113 million in loans with China Construction Bank, Industrial and Commercial Bank of China, and Shanghai Pudong Development Bank, further alleviating short term funding requirements.

Galaxy committed to reducing corporate costs in 2013 from \$17.6 million in 2012 to \$12.2 million. Over the next 12 months, further cost savings of \$7.0 million are targeted. The proceeds from the raisings to date also provided working capital for the Jiangsu Lithium Carbonate Plant (Jiangsu) in China and the Sal de Vida Lithium Brine and Potash Project (Sal de Vida) in Argentina and to pay costs associated with the raisings.

Strategy

The 'Special Management Committee' formed in mid-2013 facilitated a number of financial and operational restructuring initiatives. The primary goal of the initiatives was to reduce costs and overall debt. This included a review of the composition of the Company's Board and management and the potential sale of assets within the Company's portfolio.

As part of the Company's ongoing balance sheet restructuring, management concluded a successful negotiation with the Company's convertible bondholders to restructure its outstanding \$61.5 million 8% convertible bonds previously redeemable on 19 November 2013.

The restructuring of the convertible bonds eliminated a significant cash need, as well as providing a means by which some of the outstanding convertible bond debt was converted into equity. For any principal and accrued interest outstanding as at 19 November 2013, bondholders continue to hold the bonds until the maturity date of 19 November 2015 with a 2% increase in the coupon rate to 10% coupon per annum.

Operations

Jiangsu (100%)

Operational Performance - Jiangsu Plant Lithium Carbonate Production

	2013	2012
Production (tonnes)	5,844	1,454
Sales (tonnes)	5,630	1,329

Jiangsu Plant depleted the Mt Cattlin spodumene in mid-November 2013 and carried out a scheduled and required shutdown to convert the calcination system to accommodate the Talison feedstock. Jiangsu Plant received its first shipment of Talison feedstock in early December and production resumed in mid-December.

With almost one month of production impacted by the changeover, the total production volume recorded for the period was lower than guidance. This impacted the strategic plan of Jiangsu reaching cash flow break-even status by year end. However, individual run rate periods once Jiangsu was recommissioned were encouraging.

Safety

There were zero LTIs (Lost Time Incidents) and MTIs (Medical Treatment Incidents) for the year. Jiangsu Plant achieved zero LTIs for 2013.

Plant Certification Process

Following the ISO9001 (Quality) Certificate awarded by BSI (British Standard Institute) in May 2013, Jiangsu Plant received two more certificates on ISO14001 (Environment) and OHSAS18001 (Occupational Health and Safety) from BSI in August 2013. With those accomplished, Jiangsu Plant undertook the certification for TS16941, a quality management standard mandated by the automotive industry. The certification is part of Galaxy's effort in establishing its leading position in the electric vehicle sector.

Jiangsu Plant also received the approval document from the Administration of Environment Protection of Jiangsu Province in August 2013. This concluded the necessary project completion regulatory approvals for the Jiangsu Lithium Carbonate Project.

Projects

Sal de Vida (96%)

Strategic investor discussions progress for the Sal de Vida project. Nevertheless, management achieved a reduction in running costs. In doing so, monthly costs have been reduced from between \$250,000 - \$300,000 per month to a steady state of less than \$100,000 per month. Redundancies were paid in December, while camp, pilot plant and office closures scaling being finalised in early 2014.

Galaxy achieved a "roadmap" to environmental permits in Catamarca. At the end of 2013, the draft DIA (*Declaración Impacto Ambiental*, or environmental impact declaration) was issued for a 30-day public comment. Following that period the DIA will be modified to reflect acceptable concerns but is not expected to vary from the draft declaration. The declaration incorporates commitments to hire the majority of the workforce from the province and to allow Catamarca providers a fair chance to submit competitive bids for construction and maintenance contracts. Importantly, it does not require any participation by the Provincial government or inclusion of State representatives in Galaxy management or on the local Board. Galaxy is continuing to progress achieving these approvals.

The upfront capital costs for a full scale Sal de Vida construction program, and increased/diversified feedstock requirements have encouraged Galaxy to consider low cost, scalable development options for the development of Sal de Vida. The options targeted have an initial capital investment limited to US\$100 million and output of a saleable product within two years of commencement of construction. All development options consider modular development, providing the option to add units and scale up to the capacity of 25,000 tonnes per year of lithium carbonate and 95,000 tonnes potassium chloride, as detailed in the feasibility report.

Financial considerations would favour a partial development of evaporation ponds and initial construction of the first plant stages, with output initially of a technical grade lithium carbonate for sale for re-processing by battery grade producers. Strategic considerations could also favour initial production and sales of concentrated lithium chloride brine.

The aforementioned changes in financing and JV considerations also saw the suspension of the advanced engineering, procurement and construction contractor selection. The selection and pre-screening process had reduced the field to submissions by three groups of two engineering firms. Only one of those however met the requirement for an EPCM-type contract and reimbursable payment terms. The likely changed project scope will provide an opportunity to solicit smaller and more cost-effective solutions that can be better tailored to Galaxy's objective to meet tighter funding constraints. Local hiring and contracting requirements will come as part of the environmental/political approval.

With the receipt of necessary chemical handling, transport and storage permits, the Sal de Vida process test work team is able to resume the pilot ponds and process test program. Up to the time of the program suspension, activities were focused on crystallization, the result of which yield an end liquor that, when recycled into the ponds helps reduce the overall level of calcium and magnesium impurities. Pilot plant tests for calcium and magnesium removal by precipitation and boron reduction using solvent extraction were also resumed. Results will be reported early in 2014.

To support the development options work, additional evaporation ponds were installed at the pilot operation on site. In one case, to concentrate on pre-limed (excess magnesium removed) and concentrated (to 2.1% Li) brine from the existing test ponds and in another case, to concentrate raw well brine from an initial .06% Li to 6% Li. Concentration of the ponds brine appeared to go as planned, however efforts to concentrate the raw well brine exceeded control parameters, in part due to the suspension of the test work program.

Phase II Resource Category	Brine Volume (m3)	Avg. Li (mg/l)	In situ Li (tonnes)	Li ₂ CO ₃ Equivalent (tonnes)	Avg. K (mg/l)	In situ K (tonnes)	KCl Equivalent (tonnes)
Measured	7.2 x 10 ⁸	787	565,000	3,005,000	8,695	6,241,000	11,902,000
Indicated	2.6 x 10 ⁸	768	197,000	1,048,000	8,534	2,186,000	4,169,000
M+I	9.8 x 10 ⁸	782	762,000	4,053,000	8,653	8,427,000	16,071,000
Inferred	8.3 x 10 ⁸	718	597,000	3,180,000	8,051	6,692,000	12,762,000

*Sal de Vida Project Resource Estimate, March 2012 (Rosko & Jaacks)
Cutoff grade: 500 mg/L lithium*

The information in this report that relates to Mineral Resources for the Sal de Vida lithium project is based on work completed by Mr Michael Rosko, who is a Member of a Recognised Overseas Professional Organisation. Mr Rosko is a full time employee of E.L Montgomery and Associates and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Rosko consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Mt Cattlin and James Bay (100%)

Mt Cattlin and James Bay will be reviewed to assess and evaluate the optimal short to mid-term strategy for each asset. Necessary activities to maintain the projects in good standing have been maintained.

James Bay Resource

Indicated	11,750,000	1.30
Inferred	10,470,000	1.20

Reported at a cut-off grade of 0.75 percent Li₂O inside conceptual pit shells optimized using Lithium Carbonate price of US\$6,000 per tonne containing 40.4% Li₂O, metallurgical and process recovery of seventy percent, overall mining and processing costs of US\$64 per tonne milled and overall pit slope of forty-five degrees. All figures rounded to reflect the relative accuracy of the estimates. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

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

Mt Cattlin Resource**Resource March 2011, 0.4% Li2O cutoff, depleted for Dec 2011 EOM surface**

Category	Tonnes	Li ₂ O %	Ta ₂ O ₅ ppm	Nb ₂ O ₅ ppm	Li ₂ O metal	Ta ₂ O ₅ pounds
Measured	2,899,810	1.19	147	93	34,398	942,157
Indicated	9,905,598	1.06	168	85	105,220	3,664,746
Inferred	4,349,812	1.07	132	91	46,669	1,268,790
TOTAL	17,155,220	1.09	155	88	186,287	5,875,702
TOTAL M&I	12,805,408	1.09	163	87	139,618	4,606,903

Reserve September 2010, 0.4% Li2O cutoff, depleted for Dec 2011 EOM surface

Reserves	Tonnes	Li ₂ O %	Ta ₂ O ₅ ppm
Proved	2,803,000	1.09	136
Probable	7,933,000	1.03	150
TOTAL	10,737,000	1.04	146

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 and Schofield Pty Ltd and Dr Mike Grigson who is a full time employee of Arc Minerals. Mr Spiers and Dr Grigson have sufficient experience which is relevant to the style of mineralisation and the 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 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Spiers and Dr Grigson consent to the inclusion in the report of the matters based on information in the form and context in which it appears. The information in this report that relates to Mineral Ore Resources is based on information compiled by Mr Roselt Croeser who is a full time employee 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 they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Croeser consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Marketing & Sales

Lithium Carbonate Sales & Product Qualification

Total lithium carbonate sales for the year were 5,630 tonnes of technical and battery grade product. The sales in the fourth quarter decreased 7% compared with the third quarter, primarily due to the planned shutdown.

Lithium Carbonate Demand

Demand in Japan is expected to increase in 2014 with the EV (Electric Vehicle) and HEV (Hybrid Electric Vehicle) gaining popularity worldwide. As the high end market providers, Japanese battery and cathode makers still control the highest market share.

Demand is also expected to increase in 2014 with several governments approving their incentive policies for the new energy car. For example, in China, the rebate is US\$5,780 for HEV if the pure battery driving range exceeds 50 kilometres, or for EV if the driving range is between 80 and 150 kilometres. The rebate grows to US\$8,270 if the EV driving range rises to between 150 and 250 kilometres. The highest rebate is US\$9,920 if

the driving range is higher than 250 kilometres. They have set a total target of 500,000 units EV and HEV by 2015.

It was estimated that the sales revenue of lithium batteries was US\$11.7 billion in 2012. The forecast for 2019 is US\$33.1 billion. The compound average growth rate (CAGR) is 14.4%. The EV and storage application are expected to be the major growing segments. The Asia Pacific region is expected to continue to be the major contributor for the lithium market growth.

Strong Position in China Cathode Market

Galaxy sold more than 3,500 tonnes of lithium carbonate during the second half of 2013 and 5,630 for the full-year, making Galaxy one of China's market leaders.

The quality of Galaxy products is well liked by the mainstream cathode producers and the Company has proved itself and its technology which bodes well for future project development.

Pricing

In China, according to Asia Metal Pty Ltd, during the year, technical grade product average prices fell from US\$6,240/t to US\$5,955/t (inclusive of VAT) due to the recommencement of supplies from two Chinese brine producers. The average prices for battery grade lithium carbonate in China also dropped from US\$6,880/t to US\$6,780/t (inclusive of VAT) towards the end of the year.

DIRECTORS' REPORT

Your Directors submit their report for the year ended 31 December 2013 for Galaxy Resources Limited ("Company" or "Galaxy") and the consolidated entity incorporating the entities that it controlled during the financial year ("Group").

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

Martin Ronald Rowley
(Chairman, Independent Non-Executive Director)

Mr Rowley was a co-founder of TSX and LSE-listed First Quantum Minerals Ltd and is currently that company's Executive Director, Business Development. First Quantum is one of the world's largest copper production companies and the owner of the Ravensthorpe nickel project in Western Australia with a market capitalisation over A\$11 billion. He was previously non-executive Chairman and director of Lithium One Inc., which was acquired by Galaxy by way of a Plan of Arrangement in July 2012. He is also non-executive Chairman and a director of Forsys Metals Corp, a TSX-listed company in the uranium sector. Appointed as Chairman and Director on 28 November 2013.

Special Responsibilities: Chairman and Member of the Remuneration and Nomination Committee and Member of Audit and Risk Management Committee.

Directors Interests: 3,849,400 fully paid ordinary shares and 2,887,080 options.

Current Directorships: First Quantum Minerals Ltd and Forsys Metals Corp Inc.

Past Directorships (last 3 years): Lithium One Inc.

Anthony Peter Tse (Managing Director)

Mr Tse has been an Executive Director since 13 October 2010 and subsequently Managing Director since 11 June 2013. Mr Tse has 20 years of corporate experience in numerous high-growth industries such as technology, internet/mobile, media & entertainment, and resource & commodities – primarily in senior management, capital markets and M&A roles across Greater China and Asia Pacific in general. His previous management roles include various positions in News Corporation's STAR TV, the Deputy General Manager of TOM Online, Director of Corporate Development at Hutchison Whampoa's TOM Group, President of China Entertainment Television (a joint venture between TOM and Time Warner), and CEO of CSN Corp. He also holds the position of Senior Advisor to the Endemol Group, Advisor to Exicon, Plukka, and Music Matters, as well as being a Fellow of the Hong Kong Institute of Directors (HKIoD) and a member of the Hong Kong Mining Investment Professionals Association (HKMIPA).

Special Responsibilities: Nil.

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

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Charles Bernard Francis Whitfield (Executive Director)

Mr Whitfield has been an Executive Director since 13 October 2010, resigned on 30 April 2013. Subsequently reappointed on 28 November 2013 with responsibilities for corporate finance, merger and acquisition activities and treasury. He has been a director and a chief investment officer of Drumrock Capital since March 2008. He was formerly a managing director with Citigroup Global Markets Asia Limited. Prior to this, he worked for Deutsche Bank Group, where his last position was director of the Structured Equity Transaction Division.

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

Special Responsibilities: Nil.

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

Current Directorships: Nil.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Past Directorships (last 3 years): Nil.

Kai Cheong Kwan (Independent Non-Executive Director)

Mr Kwan graduated from the University of Singapore (since renamed as the National University of Singapore) in 1973 with a degree in Accountancy. Mr Kwan qualified as a Chartered Accountant in Australia in 1979 and has been a member of the Hong Kong Institute of Certified Public Accountants since 1982. He completed the Stanford Executive Program in 1992. Mr Kwan worked for Merrill Lynch & Co. Inc. (Merrill Lynch) for over 10 years during the period from 1982 to 1993. His last position with Merrill Lynch was president for its Asia Pacific region. Mr Kwan was appointed as Independent Non-executive Director on 13 October 2010. In addition to the above mentioned positions, Mr Kwan acts as a Director for a number of companies listed on the Stock Exchange of Hong Kong.

Special Responsibilities: Chairman and Member of the Audit and Risk Management Committee and Member of Remuneration and Nomination Committee.

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

Current Directorships: United Photovoltaics Group Ltd (formerly known as Golypoly New Energy Holdings Ltd), China Properties Group Ltd, Greenland Hong Kong Holdings Ltd (formerly known as SPG Land (Holdings) Ltd), Win Hanverky Holdings Ltd, Henderson Sunlight Asset Management Limited and Hutchison Harbour Ring Ltd.

Past Directorships (last 3 years): Soundwill Holdings Ltd and JF Household Furnishings Ltd.

Jian-Nan (George) Zhang (Non-Independent Non-Executive Director)

Mr Zhang is the Deputy General Manager of Fengli Group (Australia) Pty Ltd, a subsidiary of the Fengli Group in China, which is a leading private industrial group in China, with diversified interests in iron and steel, commodities trading, shipping and wharf operation related businesses, and is also a shareholder in the Company. He was previously Managing Director of Winly Trade & Investment in China. Appointed as a Director on 28 November 2013.

Special Responsibilities: Nil.

Directors Interests: Nil fully paid ordinary shares and Nil options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Former Directors

- Mr Craig Readhead was Chairman and a Director for the period 1 January 2013 to 28 November 2013.
- Mr Robert (Bob) Wanless was a Director for the period 1 January 2013 to 28 November 2013.
- Mr Xioajian Ren was a Director for the period 1 January 2013 to 7 November 2013.
- Mr Ignatius (Iggy) Tan was Managing Director for the period 1 January 2013 to 11 June 2013.
- Mr David (Mike) Spratt was a Director for the period 1 January 2013 to 30 April 2013.
- Dr Yuewen Zhang was a Director for the period 1 January 2013 to 30 April 2013.
- Mr Shaoqing Wu was a Director for the period 1 January 2013 to 30 April 2013.

Mr Zhimin (Richard) Shi is an Alternate Director for Mr Shaoqing Wu and Ms May Chen is an Alternate Director for Dr Yuewen Zheng during the entire period.

COMPANY SECRETARY

Andrew Leslie Meloncelli (Chief Financial Officer (Interim) and Company Secretary)

Mr Meloncelli was appointed as Company Secretary on 23 November 2009 and Interim Chief Financial Officer on 1 February 2014. He has over 18 years' experience working as a chief financial officer and company secretary for resources companies listed on AIM, ASX, PoMSOX (PNG) and TSX in the areas of corporate compliance / governance, finance, investor relations, prospectus fundraisings, systems implementation and taxation.

DIRECTORS' REPORT (CONTINUED)

COMPANY SECRETARY (CONTINUED)

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

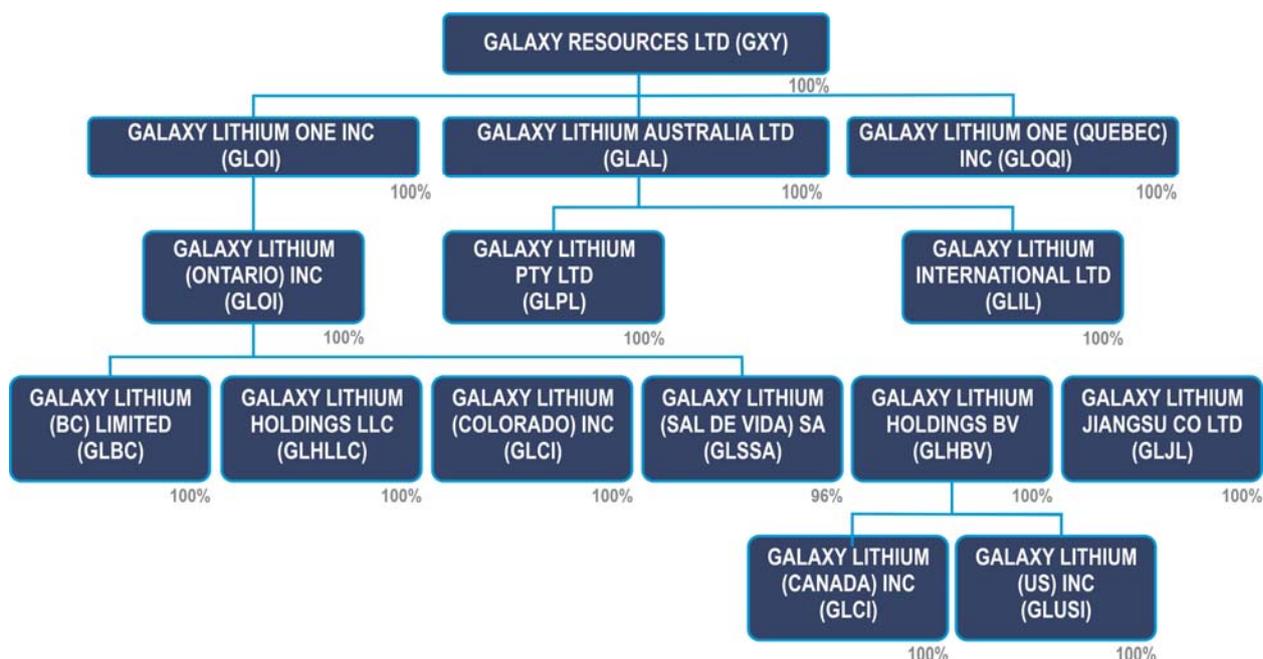
Mr Meloncelli also acts as a Director and Company Secretary for a number of wholly owned subsidiaries in the Group.

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 Group as at date of this report was as follows:



DIRECTORS' REPORT (CONTINUED)
CORPORATE INFORMATION (CONTINUED)

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

Name	Board Meetings		Audit Committee Meetings		Remuneration and Nomination Committee Meetings (d)		Risk Management Committee Meetings (d)	
	A	B	A	B	A	B	A	B
M R Rowley	2	2	-	-	-	-	-	-
A P Tse	22	21	2 (c)	2 (c)	-	-	-	-
C B F Whitfield	8	7	-	-	-	-	-	-
K C Kwan	22	19	3	3	-	-	-	-
J Zhang	2	0	-	-	-	-	-	-
C L Readhead (e)	22	22	3	3	-	-	-	-
I K S Tan (e)	10	10	1 (c)	1 (c)	-	-	-	-
R J Wanless (e)	22	22	3	3	-	-	-	-
Y Zheng (e)	6	0	1	0	-	-	-	-
X Ren (e)	20	12	-	-	-	-	-	-
S Wu (e)	6	0	-	-	-	-	-	-
D M Spratt (e)	6	6	1	1	-	-	-	-
R Shi (a) (e)	6	1	-	-	-	-	-	-
M Chen (b) (e)	6	6	1	1	-	-	-	-

(a) Alternate Director for S Wu.

(c) By invitation.

(b) Alternate Director for Y Zheng.

(d) Remuneration and Risk Management matters were discussed at various Board Meetings throughout the year.

(e) Former Director.

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

CORPORATE GOVERNANCE STATEMENT

The Board and Corporate Governance

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

The Company's Corporate Governance policies were originally adopted on 30 July 2010 and have been periodically reviewed and updated since that time.

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

The Role of the Board and the Board Charter

The Board operates in accordance with the broad principles set out in the Company's Board Charter, a copy of which is available from the Company's website. The Board is responsible for guiding and monitoring the performance of the Company on behalf of shareholders by whom they are elected and to whom they are accountable. Day to day management of the Company's affairs and the implementation of corporate strategies and policy initiatives are delegated by the Board to the Managing Director and senior executives, as set out in the Board Charter.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

- charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;
- monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets; and
- monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards.

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

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

Managing Director

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and implementing the policies and strategy set by the Board. In carrying out his responsibilities, the Managing Director must:

- report directly to the Board;
- provide prompt and full information to the Board regarding the conduct of the business of the Company;
- comply with the reasonable directions of the Board; and
- have regard to the requirements of the ASX Listing Rules and expectations of stakeholders and the wider investment community.

Directors Code of Conduct

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

Board Composition

As at the date of this report the Company has five Directors: three Non-Executive Directors including the Chairman, and two Executive Directors.

Board composition size and structure will be reviewed annually to ensure that the Non-Executive Directors between them bring the range of skills, knowledge and experience necessary to direct the Company. The skills, knowledge and experience which the Board considers to be particularly relevant include qualifications and experience in the areas of mining, engineering and project management, accounting and finance, commodities, mergers and acquisitions and law.

All Directors, other than the Managing Director, are required to retire and may stand for re-election by shareholders, at the third Annual General Meeting (AGM) following their election or most recent re-election.

Details of the skills, experience and expertise relevant to the position of Director held by each Director in office as at the date of the Annual Report, and the periods of office held by each director, are set out on pages 10 and 11.

Chairman

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

Mr Rowley is the current Chairman of the Company, and is considered independent.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Director Independence

The ASX Governance Principles state that an independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgment. The Board determines the independence of Directors.

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

Due to the fact the Board is only a board of five, of which three Directors are not independent, the Board does not have a majority of independent directors and therefore the Company does not comply with ASX Governance Principle 2.1. The Board will continue to assess its size and composition with a view to ensuring compliance with Corporate Governance Principles and Recommendations.

If any Director has a material personal interest in a matter, the Director will not be permitted to vote on the matter.

Directors' Access to Independent Advice

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

Board Meetings

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

Directors' attendance at Board and Committee meetings is detailed on page 13.

Board Committees

The Company's Board has established an Audit Committee (now Audit and Risk Management Committee effective 28 November 2013), Remuneration and Nomination and a Risk Management Committee (ceased 28 November 2013).

Audit and Risk Management Committee (ARC)

The names of ARC Members during the financial period are as below. Members were in office for the entire period unless otherwise stated.

Kai Cheong Kwan (Chairman)
Martin Ronald Rowley (Appointed 28 November 2013)
Craig Leslie Readhead (Resigned 28 November 2013)
Robert James Wanless (Resigned 28 November 2013)
David Michael Spratt (Resigned 30 April 2013)
Yuewen Zheng (Resigned 30 April 2013)

Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally two times during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at ARC meetings is detailed on page 13.

The ARC's overall role is to assist the Board in fulfilling its responsibilities for the Company's financial reporting and audit, internal control and financial risks. Also responsible for the identification of significant areas of business risk, implementing procedures to manage such risks and developing policies regarding the establishment and maintenance of appropriate ethical standards to:

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

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

- Evaluating the effectiveness of the Company's internal control measures, and gaining an understanding of whether internal control measures are adequate;
- Recommendations made by external auditors have been implemented;
- Understanding the current areas of greatest financial risk for the Company and management's response to minimising those risks;
- Reviewing significant accounting and reporting issues;
- Reviewing annual financial reports, and meeting with management and external auditors to discuss the reports and the results of the audit;
- Ensure compliance in legal statutory and ethical matters;
- Monitor the business environment;
- Identify business risk areas; and
- Identify business opportunities.

The Board has reviewed the following:

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

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

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

Remuneration and Nomination Committee (RNC)

The names of RNC Members during the financial period are as below. Members were in office for the entire period unless otherwise stated.

Martin Ronald Rowley (Chairman) (Appointed 28 November 2013)

Craig Leslie Readhead (Resigned 28 November 2013)

Kai Cheong Kwan

Robert James Wanless (Resigned 28 November 2013)

David Michael Spratt (Resigned 30 April 2013)

Yuewen Zheng (Resigned 30 April 2013)

Mr Meloncelli is the Secretary to the Committee. It has a formal charter and meets generally at least once during a financial year. A copy of the Charter is located on the Company's website. Committee members' attendance at RNC meetings is detailed on page 13.

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

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

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

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Corporate Reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 31 December 2013 financial statements:

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

Securities Trading Policy

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

Financial Reporting

Consistent with ASX Governance Principle 4.1, the Company's financial report preparation and approval process for the year ended 31 December 2013 involved both the Managing Director and the Chief Financial Officer providing detailed representations to the Board covering:

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

Indemnities

The Company has entered into good faith, protection and access deeds with all Directors, Alternate Directors, Company Secretary and Chief Financial Officer. These deeds provide access to documentation, indemnification against liability from conduct of the Company's business and subsidiaries, and Directors' and officers' liability insurance.

Directors and Senior Executives Performance Evaluation and Remuneration

The Board annually self-assess its collective performance and that of senior executives, and the performance of individual Directors and of Board committees. This occurred during the year in accordance with the process. The assessment is undertaken using discussions and, where applicable, advice from external consultants.

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

Continuous Disclosure and Shareholder Communications

The Company has an ASX Corporate Compliance Policy, Continuous Disclosure Policy and a Shareholder Communications Policy relating to Continuous Disclosure and Shareholder Communications matters. The policies cover the following matters:

- guidelines for Identifying price sensitive information requiring disclosure;
- prior vetting of ASX announcements and Media Releases;
- media enquiries/analyst briefings; and
- shareholder communications in order to promote effective communication with shareholders and encouraging participation at the Company's Annual General Meeting.

The Company Secretary has primary responsibility for ensuring that the ASX disclosure requirements are met.

Copies of each of these policies are located on the Company's website.

Shareholders may elect to receive company reports by mail or by email.

Auditors

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

DIRECTORS' REPORT (CONTINUED)
CORPORATE GOVERNANCE (CONTINUED)

Ethical Standards and Conduct

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

Diversity

The Company has established a Diversity Policy. The Company recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within the geographic location in which it operates.

This policy includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

Copy of the Diversity policy is available on the Company's website.

The Company provides the following statistics on gender diversity as at 31 December 2013:

1. proportion of women employees in whole organisation: 22.6%
2. proportion of women in management positions: 22.7%
3. proportion of women in senior management positions: 0%
4. proportion of women on the Board: 0%.

Corporate Governance Principles and Recommendations

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

Principle No.	Best Practice Principle	Commentary	Galaxy's mechanism for dealing with non-compliance
1	Lay solid foundations for management and oversight.	Galaxy complies with this principle.	Not applicable.
2	Structure the board to add value.	2.1. Messrs Rowley and Kwan, Spratt and Wanless (Two of Five Directors) are considered independent. Therefore, a majority of the board is not considered independent.	The Board is currently undertaking a review of the size and structure of the Board addressing the following matters: <ul style="list-style-type: none"> - Number of Directors; and - Balance of Independent and Non Independent Directors. At such time the Board will be restructured to be appropriate at and be consistent with the Business Activities of the Consolidated Entity.
3	Promote ethical and responsible decision-making.	Galaxy complies with this principle.	Not applicable.
4	Safeguard integrity in financial reporting.	Galaxy complies with this principle.	Not applicable
5	Make timely and balanced disclosure.	Galaxy complies with this principle.	Not applicable
6	Respect the rights of shareholders.	Galaxy complies with this principle.	Not applicable.
7	Recognise and manage risk.	Galaxy complies with this principle.	Not applicable.
8	Remunerate fairly and responsibly.	Galaxy substantially complies with this Principle. 8.3. Non-Executive Directors have received performance options to provide incentive to grow the Company.	The Board considers that the issue of performance options to Non-Executive Directors appropriate as it aligns the interests of the Non-Executive Directors with Shareholders.

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

Principal Activities

The principal activities of the entities within the Group are:

- Production of Lithium Carbonate; and
- Exploration for minerals.

There has been no significant change in principal activities during the year ended 31 December 2013.

Dividends

No dividends have been paid by the Company during the year ended 31 December 2013, nor have the Directors recommended that any dividends be paid.

Operating Results for the Period

The Group's loss was \$103,511,544 after tax for the year to 31 December 2013 (31 December 2012: \$127,894,316).

Review of Operations

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

Significant Changes in State Of Affairs

The state of affairs of the Company are as follows:

- On 30 April 2014, Galaxy announced the signing of an agreement for the sale of its shares in wholly owned subsidiary Galaxy Lithium International Limited ("GLIL"), including the Jiangsu Lithium Carbonate Plant ("Jiangsu Plant") and associated bank debt of RMB 654 million (approximately \$A112 million) for US\$122 million (approximately \$A132 million), to Tianqi HK Co. Limited ("Tianqi"), ("The GLIL Disposal") which is part of the Sichuan Tianqi Lithium Industries Inc group ("Sichuan Tianqi"). Completion of the sale agreement is subject to Australian and PRC regulatory approval and both Galaxy and Sichuan Tianqi shareholder approval. The basis of the transaction is an enterprise value is US\$230 million. The final enterprise value and therefore cash consideration is subject to any working capital adjustments up until date of completion.

Events Subsequent To Reporting Date

- On 3 February 2014, the Company had suspended trading on the ASX;
- On 18 March 2014, the Company signed a further A\$2.3 million subordinated short term loan facility with a lending consortium in addition to A\$5 million subordinated short term loan facility signed, as announced to the ASX on 29 July 2013;
- On 18 March 2014, the Company announced that the wholly owned China subsidiary, Galaxy Lithium (Jiangsu) Co Ltd ("GLJL"), has entered into a spodumene tolling agreement with Sichuan Tianqi Lithium Industries, Inc. ("Sichuan Tianqi"), to produce lithium carbonate on their behalf ("Toll Agreement"). The Toll Agreement is initially for 12 months, with an option for further extension and is for up to 8,000 tons of industrial and battery grade products. Sichuan Tianqi will pay a toll treatment fee to GLJL, which will be responsible for production costs, excluding the cost of packaging;
- On 14 April 2014, the Company issued 25,000,000 unlisted options with exercise price of A\$0.08 and expiry date of 31 December 2014 to a lending consortium, as announced to the ASX on 29 July 2013; and
- On 30 April 2014, Galaxy announced the signing of an agreement for the sale of its shares in wholly owned subsidiary Galaxy Lithium International Limited ("GLIL"), including the Jiangsu Lithium Carbonate Plant ("Jiangsu Plant") and associated bank debt of RMB 654 million (approximately \$A112 million) for US\$122 million (approximately \$A132 million), to Tianqi HK Co. Limited ("Tianqi"), ("The GLIL Disposal") which is part of the Sichuan Tianqi Lithium Industries Inc group ("Sichuan Tianqi"). Completion of the sale agreement is subject to Australian and PRC regulatory approval and both Galaxy and Sichuan Tianqi shareholder approval. The basis of the transaction is an enterprise value is US\$230 million. The final enterprise value and therefore cash consideration is subject to any working capital adjustments up until date of completion.

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

Likely Developments and Expected Results of Operations

The Company and Group intends to develop the existing assets of Sal De Vida, James Bay and Mt Cattlin and to seek investment opportunities in the resources industry. For further information refer to the Operational Review within the Annual Report.

Further information on likely developments in the operations of the Company and Group 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 Group.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT - AUDITED

The remuneration report is set out under the following main headings:

- A Principles of compensation
- B Details of remuneration
- C Service agreements
- D Share-based compensation

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

The information provided within this remuneration report includes remuneration disclosures that are required under section 300A of the Corporations Act.

A Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for the Group.

Compensation levels for key management personnel and secretaries of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee obtains independent advice on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance including:
 - the Group's earnings
 - the growth in share price and delivering constant returns on shareholder wealth
 - the amount of incentives within each key management person's compensation.
 - the achievement of various corporate goals

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance-based incentives that are assessed on a 12 month ended 30 June basis.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and contributes to post-employment superannuation plans on their behalf.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration and Nomination Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place.

Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding their organisational goals. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Executive Share Option Plan.

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT – AUDITED (CONTINUED)

Short-term incentive bonus

Each year the Remuneration and Nomination Committee sets the key performance indicators (KPIs) for the Managing Director, Senior Executives and staff. The KPIs generally include measures relating to the Group, the relevant segment, and the individual and include financial, people, customers, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

The short term bonus scheme criteria for the year ended 30 June 2013 year was on the basis of 100% Board Discretion. Of which no bonuses were awarded.

Remuneration and Nomination Committee recommends the cash incentive to be paid to the individuals for approval by the Board. The method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance.

Long-term incentives

Options and Performance Rights are issued under the Galaxy Resources Limited Employee Equity Incentive Plan which was adopted at the 23 May 2012 Annual General Meeting and provides for Senior Management and Staff to receive options and performance rights over ordinary shares for no consideration as determined by the board.

For the period from 1 January 2013 to 31 December 2013, the Company did not have a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Subsequent to 30 June 2011, legislative changes to the Corporations Act make it illegal for key management personnel to hedge their remuneration.

Short-term and long-term incentive structure

The Remuneration and Nomination Committee considers that the market based factors and the achievement of corporate goals as the primary factors for the compensation structure are generating the desired outcomes in meeting these goals.

The Group continues through a development phase. Accordingly, performance is not appropriate to be measured by revenue and profit, but by more appropriate factors.

Consequences of performance on shareholder wealth

The Remuneration and Nomination Committee have observed the following in respect of the current financial year and the previous four financial years.

	31 December 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Comprehensive loss attributable to owners of the company	(99,462,106)	(131,303,457)	(129,878,719)	(33,036,118)	(12,321,992)
Increase/(decrease) in share price	(\$0.348)	(\$0.31)	(\$0.745)	\$0.17	\$0.65

The overall level of key management personnel compensation takes into account the performance of the Group over a number of years.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 22 December 2010 General Meeting, is not to exceed \$800,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' base fees are presently up to \$50,000 per annum.

All non-executive directors (effective 28 November 2013) fees are issued Galaxy shares in consideration (subject to shareholder approval).

The Chairperson receives \$75,000 per annum. Directors' fees cover all main board activities and memberships of committees.

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

B Details of remuneration

	12 months to 31 December 2013	12 months to 31 December 2012
	\$	\$
Total remuneration received, or due and receivable, by key management personnel of the Group	3,384,044	13,862,989

The details of remuneration of the key management personnel and specified executives of the Group are set out in the following tables. The key management personnel of Galaxy Resources Limited as at 31 December 2013 are the following:

- Martin Rowley (Chairman)
- Anthony Tse (Managing Director)
- Charles Whitfield (Executive Director)
- Kai Cheong Kwan (Non-Executive Director)
- Jian-Nan Zhang (Non-Executive Director)
- Andrew Meloncelli (Company Secretary)
- Jingyuan Liu (General Manager Development)
- John Sobolewski (Chief Financial Officer)

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

B Details of remuneration (continued)

<u>31 December 2013</u>	<u>Short – term benefits</u>			<u>Post-employment benefits</u>	<u>Share-based payment *</u>	<u>Total</u>	<u>Proportion of remuneration performance related</u>	<u>Value of options as proportion of remuneration</u>
	<u>Cash Salary & Fees</u>	<u>Other</u>	<u>Bonus</u>	<u>Superannuation</u>			<u>%</u>	<u>%</u>
<u>Name</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>	<u>%</u>
Executives								
A P Tse	324,287	-	-	-	-	324,287	-	-
C B F Whitfield	324,287	-	-	-	-	324,287	-	-
A L Meloncelli	225,762	-	-	20,587	-	246,349	-	-
J Liu	263,520	-	-	21,492	-	285,012	-	-
J A Sobolewski	256,597	-	-	23,399	-	279,996	-	-
I K S Tan (Resigned 11 June 2013)	549,848	6,393	-	41,320	-	597,561	-	-
T A Stark (Ceased 27 Sept 2013)	435,837	-	-	23,238	-	459,075	-	-
A M Sheth (Ceased 27 Sep 2013)	398,545	-	-	21,122	-	419,667	-	-
Non – Executive Directors								
M R Rowley (Appointed 28 Nov 13)	-	-	-	-	-	-	-	-
J Zhang (Appointed 28 Nov 13)	-	-	-	-	-	-	-	-
K C Kwan	61,832	-	-	-	-	61,832	-	-
C L Readhead (Resigned 28 Nov 2013)	98,000	-	-	-	50,000	148,000	-	-
R J Wanless (Resigned 28 Nov 2013)	57,166	-	-	5,203	50,000	112,369	-	-
X Ren (Resigned 7 Nov 2013)	53,510	-	-	-	-	53,510	-	-
Y Zheng (Resigned 30 April 2013)	23,333	-	-	-	-	23,333	-	-
M Spratt (Resigned 30 April 2013)	23,333	-	-	2,100	-	25,433	-	-
S Wu (Resigned 30 April 2013)	23,333	-	-	-	-	23,333	-	-
	3,119,190	6,393	-	158,461	100,000	3,384,044		

* These options have not been granted and remain subject to shareholder approval.

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

B Details of remuneration (continued)

<u>31 December 2012</u>	<u>Short – term benefits</u>			<u>Post-employment benefits</u>	<u>Share-based payment *</u>	<u>Total</u>	<u>Proportion of remuneration performance related</u>	<u>Value of options as proportion of remuneration</u>
	<u>Cash Salary & Fees</u>	<u>Other</u>	<u>Bonus **</u>	<u>Superannuation</u>			<u>%</u>	<u>%</u>
<u>Name</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>		
Executives								
I KS Tan	554,268	21,432	53,308	54,682	3,114,423	3,798,113	83%	82%
JA Sobolewski	266,526	-	17,089	25,525	519,070	828,210	65%	63%
TA Stark	351,798	-	22,556	33,692	519,070	927,116	58%	56%
AM Sheth	319,770	-	20,503	30,625	519,070	889,968	61%	58%
PM Tornatora (resigned 10 Feb 12)	46,521	-	-	3,166	259,535	309,222	84%	84%
AL Meloncelli	234,498	-	15,035	22,458	519,070	791,061	68%	66%
J Liu	260,525	-	15,696	23,445	259,535	559,201	49%	46%
AP Tse	348,550	-	20,503	-	519,070	888,123	61%	58%
CBF Whitfield	348,550	-	20,503	-	519,070	888,123	61%	58%
Non – Executive Directors								
C L Readhead	120,000	-	-	-	778,606	898,606	87%	87%
R J Wanless	70,000	-	-	6,300	519,070	595,370	87%	87%
K C Kwan	70,000	-	-	-	519,070	589,070	88%	88%
X Ren	70,000	-	-	-	519,070	589,070	88%	88%
Y Zheng	70,000	-	-	-	778,606	848,606	92%	92%
M Spratt	70,000	-	-	6,300	158,415	234,715	67%	67%
S Wu	70,000	-	-	-	158,415	228,415	69%	69%
	3,271,006	21,432	185,193	206,193	10,179,165	13,862,989		

* Options issued in previous periods and have a vesting condition of a share price of \$2, based on a 10 day Volume Weighted Average Price.

** No amount of bonus was forfeited. These amounts represent the full amount of bonus which vested.

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

C Service Agreements

A P Tse (Managing Director)

Term of Agreement – Mr Tse's Service Agreement is for an unlimited tenure.

Agreement

Under the terms of the agreement, Mr Tse's fees of \$350,000 per annum are paid monthly. This is reviewed by the Remuneration and Nomination Committee annually. Remuneration is based on market factors.

C B F Whitfield (Executive Director)

Term of Agreement – Mr Whitfield's Service Agreement is for an unlimited tenure.

Agreement

Under the terms of the agreement, Mr Whitfield's fees of \$350,000 per annum are paid monthly. This is reviewed by the Remuneration and Nomination Committee annually. Remuneration is based on market factors.

Termination

Termination of the contract can occur by either party giving three months' notice in writing. Should the contract be terminated by the Company without three months' notice, payment in-lieu of the remaining notice period is payable.

Other executives have unlimited tenure contracts with the Company on a fixed annual salary plus 9.25% superannuation. Each executive must give one to three months' notice to terminate the contract. No other termination benefits are payable.

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 (Class)	Expiry date	Exercise Price	Value per option at grant date
27 November 2008	a	24 November 2011	\$0.80	\$0.16
27 November 2008	b	24 November 2011	\$1.00	\$0.14
27 November 2008	c	24 November 2011	\$1.20	\$0.12
2 April 2009	d	5 years from vesting	\$0.60	\$0.07
17 April 2009	d	5 years from vesting	\$0.60	\$0.08
2 April 2009	e	5 years from vesting	\$0.60	\$0.03
17 April 2009	e	5 years from vesting	\$0.60	\$0.03
17 April 2009	f	5 years from vesting	\$0.45	\$0.27
14 October 2009	g	5 years from vesting	\$0.60	\$1.38
23 November 2009	g	5 years from vesting	\$0.90	\$0.87
14 October 2009	d	5 years from vesting	\$0.60	\$1.07
10 March 2010	e	5 years from vesting	\$1.11	\$1.00
10 March 2010	h	5 years from vesting	\$1.11	\$1.00
10 March 2010	i	5 years from vesting	\$1.11	\$1.03
4 June 2010	j	5 years from vesting	\$0.96	\$0.77
22 December 2010	k	5 years from vesting	\$1.16	\$0.94
24 March 2011	l	3 years from vesting	\$1.16	\$0.52
16 May 2011	k	5 years from vesting	\$1.16	\$0.29
13 February 2012	h	5 years from vesting	\$1.16	\$0.44
13 February 2012	m	3 years from vesting	\$1.16	\$0.15

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

D Share-based compensation (continued)

- 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 Bankable Feasibility Study.
- c. On achievement of positive earnings before interest and tax from production of lithium carbonate/concentrate.
- d. On completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin Project.
- e. On achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin Project for 3 consecutive months.
- f. Immediately.
- g. On completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu Lithium Carbonate Project.
- h. On achievement of commercial production of lithium carbonate at the nameplate capacity specified in the final plant design at the Company's Jiangsu Project for 3 consecutive months.
- i. On completion of 18 months employment (earliest vesting date of 22 July 2011).
- j. On completion of 18 months service from date of grant and increase shareholder returns by 68% measured by a 5 day Volume Weighted Average Price (VWAP) share price being greater than \$2.00 per share.
- k. On the latest to occur of completion of 12 months service from 13 October 2010 and Company's share price being greater than A\$2.00 based on a 10 day VWAP.
- l. On the latest to occur of completion of 18 months service from 24 February 2011 and Company's share price being greater than A\$2.00 based on a 10 day VWAP.
- m. On the latest to occur of completion of 18 months service from 30 November 2011 and Company's share price being greater than A\$2.00 based on a 10 day VWAP.

The above performance conditions were chosen as they were linked to significant Company objectives and are aligned to shareholder wealth objectives. Success against these performance conditions is assessed on a periodic basis by the Remuneration and Nomination committee.

Analysis of movements in options - audited

Details on options over ordinary shares in the company that were granted as compensation to each key management person during the reporting period and details of options vested during the reporting period are as follows:

Name	Number of options granted In year	Fair value \$	Granted in year \$	Number of options vested In year	Number of options lapsed in year	Lapsed in year (A) \$
Directors of Galaxy Resources Limited						
R J Wanless	-	-	-	-	3,750,000	Nil
C Readhead	-	-	-	-	3,000,000	Nil
Y Zheng	-	-	-	-	1,500,000	Nil
I K S Tan	-	-	-	-	9,500,000	Nil
M Spratt	-	-	-	-	1,000,000	Nil
S Wu	-	-	-	-	1,000,000	Nil
Other Key Management Personnel						
A M Sheth	-	-	-	-	1,750,000	Nil
T A Stark	-	-	-	-	1,750,000	Nil

(A) The value of the options lapsed during the year represents the benefit forgone and is calculated at the date of the option lapsed using the Black Scholes option-pricing model assuming the performance criteria had been achieved.

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 Group are set out below.

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

D Share-based compensation (continued)

Name	Date of exercise of options	Amount paid per share	Number of ordinary shares issued on exercise of options	
			31 December 2013	Value of options exercised \$
Directors of Galaxy Resources Limited				
	None			
Other Key Management Personnel				
	None			

The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

Analysis of options and rights over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to each key management person of the Group and each of the Group executives are listed below.

Executives	Options granted		% vested in year	% forfeited in year (A)	Financial years in which grant vests
	Number	Date			
Directors					
C L Readhead	250,000	17 April 2009	-	100	27 November 2009
	500,000	17 April 2009	-	100	(B)
	500,000	23 November 2009	-	100	27 November 2009
	500,000	4 June 2010	-	100	(B)
	1,500,000	22 December 2010	-	100	(B)
R J Wanless	250,000	17 April 2009	-	100	27 November 2009
	500,000	17 April 2009	-	100	(B)
	500,000	23 November 2009	-	100	27 November 2009
	500,000	4 June 2010	-	100	(B)
	1,000,000	22 December 2010	-	100	(B)
Y Zheng	1,500,000	22 December 2010	-	100	(B)
X Ren	1,000,000	22 December 2010	-	100	(B)
S Wu	1,000,000 (C)	16 May 2011	-	100	(B)
K C Kwan	1,000,000	22 December 2010	-	-	(B)
D M Spratt	1,000,000	16 May 2011	-	100	(B)
Executives					
I KS Tan	1,000,000	17 April 2009	-	-	27 November 2009
	1,500,000	17 April 2009	-	100	(B)
	2,000,000	4 June 2010	-	100	(B)
	6,000,000	22 December 2010	-	100	(B)
J A Sobolewski	450,000	17 April 2009	-	-	27 November 2009
	750,000	17 April 2009	-	-	(B)
	1,000,000	22 December 2010	-	-	(B)
T A Stark	750,000	17 April 2009	-	-	18 April 2009
	500,000	17 April 2009	-	-	27 November 2009
	750,000	17 April 2009	-	100	(B)
	800,000	23 November 2009	-	-	27 November 2009
	1,000,000	22 December 2010	-	100	(B)
A M Sheth	600,000	17 April 2009	-	-	27 November 2009
	750,000	17 April 2009	-	100	(B)
	1,000,000	22 December 2010	-	100	(B)
A L Meloncelli	1,000,000	10 March 2010	-	-	23 July 2011
	1,000,000	22 December 2010	-	-	(B)
J Liu	200,000	10 March 2010	-	-	(B)
	200,000	10 March 2010	-	-	23 July 2011

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

D Share-based compensation (continued)

	500,000	22 December 2010	-	-	(B)
A P Tse	1,000,000	22 December 2010	-	-	(B)
C B F Whitfield	1,000,000	22 December 2010	-	-	(B)

(A) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to resignation of the individual.

(B) Not yet vested.

(C) Options were issued to Fengli Group of which S Wu is a representative, and he is not the beneficial owner.

Insurance of Officers

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

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

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

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

Environmental Regulation and Performance

The Consolidated Entity holds various environmental licences and authorities, issued under both Australian and Peoples Republic of China (PRC) law, to regulate its mining, exploration and chemicals activities in Australia and PRC. These licences 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 Group's licences and all mining, exploration and chemicals activities have been undertaken in compliance with the relevant environmental regulations.

Proceedings On Behalf Of the Company

There are no proceedings on behalf of the Company under section 237 of the Corporations Act 2001 in the year ended 31 December 2013 or at the date of this report.

Non-audit Services

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of amounts paid to KPMG can be found in note 7.

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 year ended 31 December 2013.

DIRECTORS' REPORT (CONTINUED)

Signed in accordance with a resolution of the Directors
Dated at Perth this 30th day of April 2014.
On behalf of the Directors



A P Tse
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 year ended 31 December 2013 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

Trevor Hart
Partner

Perth

30 April 2014

FINANCIAL REPORT

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2013	Year ended 31 December 2012
		\$	\$
Revenue	4	32,183,436	9,435,288
Cost of sales – excluding impairment		(60,555,931)	(56,977,128)
Impairment loss on plant and equipment	13	(35,598,549)	(49,000,000)
Cost of sales		(96,154,480)	(105,977,128)
Gross loss		(63,971,044)	(96,541,840)
Administration costs		(13,055,201)	(28,869,930)
Impairment loss on exploration and evaluation costs	15	(10,830,491)	-
Gain/(loss) on sale of assets		58,844	(2,269,931)
Loss from operations		(87,797,892)	(127,681,701)
Finance income	5	2,506,540	7,950,535
Finance costs	5	(19,566,932)	(8,163,150)
Net finance costs		(17,060,392)	(212,615)
Loss before taxation	6	(104,858,284)	(127,894,316)
Income tax	8	1,346,740	-
Loss for the year		(103,511,544)	(127,894,316)
Other comprehensive (loss)/income for the year			
Items that may be reclassified subsequently to profit and loss		-	-
Foreign currency translation differences - foreign operations		4,049,438	(3,409,141)
Other comprehensive (loss)/income for the year		4,049,438	(3,409,141)
Total comprehensive (loss)/income for the year		(99,462,106)	(131,303,457)
Loss per share			
Basic and diluted loss per share (cents per share)	11	(14.34)	(29.95)

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2013	31 December 2012
		\$	\$
NON-CURRENT ASSETS			
Property, plant and equipment	13	144,257,596	169,735,813
Lease prepayment	14	1,332,799	1,367,025
Exploration and evaluation assets	15	137,114,767	135,782,341
Available-for-sale financial assets	16	101,734	216,196
Trade and other receivables	17	329,491	6,285,396
TOTAL NON-CURRENT ASSETS		283,136,387	313,386,771
CURRENT ASSETS			
Trade and other receivables	17	24,743,783	13,175,844
Inventories	23	7,301,445	18,869,647
Cash and cash equivalents	18	2,840,290	7,718,527
TOTAL CURRENT ASSETS		34,885,518	39,764,018
TOTAL ASSETS		318,021,905	353,150,789
NON-CURRENT LIABILITIES			
Provisions	20	6,871,182	5,313,782
Interest bearing liabilities	21	-	60,365,464
TOTAL NON-CURRENT LIABILITIES		6,871,182	65,679,246
CURRENT LIABILITIES			
Trade and other payables	19	18,959,447	13,116,519
Provisions	20	29,068	347,785
Interest bearing liabilities	21	183,657,080	107,779,160
TOTAL CURRENT LIABILITIES		202,645,595	121,243,464
TOTAL LIABILITIES		209,516,777	186,922,710
NET ASSETS		108,505,128	166,228,079
CAPITAL AND RESERVES			
Share capital	24	448,460,634	407,170,372
Reserves	24	15,265,358	32,207,502
Accumulated Losses		(360,244,510)	(305,906,197)
Non-controlling interests	15	5,023,646	32,756,402
TOTAL EQUITY		108,505,128	166,228,079

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Share capital \$	Equity-settled payments reserve \$	Foreign currency translation reserve \$	Fair value reserve \$	Accumulated losses \$	Non-controlling interest \$	Total equity \$
Balance at 31 December 2011 and 1 January 2012		271,457,219	22,123,342	(1,410,092)	-	(178,655,364)	-	113,515,105
Loss for the year		-	-	-	-	(127,894,316)	-	(127,894,316)
Other comprehensive (loss) for the year		-	-	(3,409,140)	-	-	-	(3,409,141)
Total comprehensive loss		-	-	(3,490,140)	-	(127,894,316)	-	(131,303,457)
Issue of shares, net of transaction costs	24(b)	55,254,828	-	-	-	-	-	55,254,828
Transfer of reserve upon forfeit of options		-	(643,483)	-	-	643,483	-	-
Share-based payment transactions		-	15,546,876	-	-	-	-	15,546,876
Merger with Lithium One Inc		80,458,325	-	-	-	-	32,756,402	113,214,727
Balance at 31 December 2012 and 1 January 2013		407,170,372	37,026,735	(4,819,232)	-	(305,906,197)	32,756,402	166,228,079
Loss for the year		-	-	-	-	(103,511,544)	-	(103,511,544)
Other comprehensive income for the year		-	-	4,049,438	-	-	-	4,049,438
Total comprehensive income		-	-	4,049,438	-	(103,511,544)	-	(99,462,106)
Issue of shares, net of transaction costs	24(b)	41,290,262	-	-	-	-	-	41,290,262
Transfer of reserve upon forfeit of options		-	(22,240,475)	-	-	22,440,475	-	-
Share-based payment transactions		-	1,248,892	-	-	-	-	1,248,892
Change in Non-Controlling Interest	15	-	-	-	-	27,732,756	(27,732,756)	-
Balance at 31 December 2013		448,460,634	16,035,152	(769,794)	-	(360,244,510)	5,023,646	108,505,128

The accompanying notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Year ended 31 December 2013	Year ended 31 December 2012
Operating activities		
Receipts from customers	23,739,682	8,492,223
Receipts from Australian Taxation Office	1,346,740	-
Payments to suppliers and contractors	(43,646,686)	(76,044,574)
Net cash (used in) operating activities	18 (18,560,264)	(67,552,351)
Investing activities		
Interest received	138,619	348,886
Acquisition of property, plant and equipment	(6,287,888)	(55,627,940)
Proceeds from sale of tenements	250,000	144,746
Proceeds from sale of assets	233,691	-
Payments for exploration and evaluation assets	(8,617,380)	(7,082,391)
Inflow/(Outflow) for security deposits/ performance bonds	2,091,904	(1,048,626)
Net cash (used in) investing activities	(12,191,054)	(63,265,325)
Financing activities		
Proceeds from issue of shares	45,416,261	57,245,616
Transaction costs from issue of shares	(3,070,999)	(1,990,788)
Purchase of call option	(2,500,000)	(2,500,000)
Bank charges and interest paid	(10,994,152)	(6,841,107)
Proceeds from borrowings	55,347,835	75,565,326
Repayments of borrowings	(58,625,697)	(4,828,818)
Cash acquired from merger with Lithium One Inc	15 -	6,191,345
Net cash generated from financing activities	25,573,248	122,841,574
Net decrease in cash and cash equivalents	(5,178,070)	(7,976,102)
Cash and cash equivalents at the beginning of the year	7,718,527	17,996,933
Effect of foreign exchange rate changes	299,835	(2,302,304)
Cash and cash equivalents at the end of the year	18 2,840,292	7,718,527

The accompanying notes form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Australian dollars unless otherwise indicated)**1. REPORTING ENTITY**

Galaxy Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is at Level 2, 16 Ord Street, West Perth, Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is a for-profit entity and is primarily involved in mineral exploration and processing.

2. BASIS OF PREPARATION**a. Statement of compliance**

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

The consolidated financial statements were authorised for issue by the Board of Directors on 30 April 2014.

b. Basis of measurement

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

- Derivative financial instruments are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Liabilities for equity-settled share-based payment arrangements are measured at fair value.
- Convertible bonds issued are designated at fair value through profit or loss.

c. Functional and presentation currency

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

d. Use of estimates and judgements

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

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

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

e. Going Concern

The Group financial report has been prepared on the going concern basis which assumes the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

For the year ended 31 December 2013 the Group incurred a loss after tax of \$103.5 million. The Group has net current liabilities at 31 December 2013 of \$167.8 million which includes interest bearing liabilities of \$183.6 million. This includes unsecured bank loans of \$120.8 million, unsecured Convertible bonds of \$58.1 million and secured loans of \$4.7 million.

On 30 April 2014, Galaxy announced the signing of an agreement for the sale of its shares in wholly owned subsidiary Galaxy Lithium International Limited ("GLIL"), including the Jiangsu Lithium Carbonate Plant ("Jiangsu Plant") and associated bank debt of RMB 654 million (approximately \$A112 million) for US\$122 million (approximately \$A132 million), to Tianqi HK Co. Limited ("Tianqi"), ("The GLIL Disposal") which is part of the Sichuan Tianqi Lithium Industries Inc group ("Sichuan Tianqi"). Completion of the sale agreement is subject to Australian and PRC regulatory approval and both Galaxy and Sichuan Tianqi shareholder approval.

2. BASIS OF PREPARATION (CONTINUED)**e. Going Concern (continued)**

The effect of the sale will be as follows:

- The Group will receive a 10% deposit of the sale proceeds, expected May 2014;
- The Group will have disposed of its interest in the entities which hold 100% of the Jiangsu Lithium Plant and its associated bank facilities and working capital items on completion; and
- On completion the Board estimates that the sale will provide Galaxy with approximately \$62 million in cash, net of interest bearing liabilities subject to any working capital adjustments up until date of completion.

Until completion the Group will continue to own and operate the Jiangsu Lithium Plant.

At 31 December 2013, the Company's wholly owned subsidiary Galaxy Lithium (Jiangsu) Co., Limited ("GLJL"), also a subsidiary of GLIL, was in technical breach of certain lending covenants under a bank facility. The technical breach constitutes a potential event of default which would allow the bank to demand immediate repayment of amounts owing, only if an event of default was to be called by the bank. Default clauses in other of GLJL's and the Group's debt and facility agreements would then allow those banks and lenders to identify a default event and demand immediate repayment of their amounts owing.

For this reason all of the Group's unsecured bank loans and interest bearing liabilities have been classified as current liabilities at 31 December 2013, in accordance with the requirements under accounting standards.

GLJL has not requested nor received a formal waiver of the lender's rights to call on the loan in respect of this breach. However it is the opinion of the Directors that the relevant bank is unlikely to pursue this breach prior to the completion of the disposal of GLIL and GLJL.

The Directors are aware that the ability to continue as a going concern is dependent upon one or more of the following uncertain events:

- The successful completion of the GLIL Disposal; and
- The support of its bank lenders in China to waive existing rights under covenant breaches to immediately recall drawn amounts and continue to offer access to existing facilities until completion of the GLIL Disposal.

The Board believes that the going concern basis of preparation remains appropriate for the following reasons:

- The GLIL Disposal is expected to successfully complete;
- The Group has historically received support from its financiers for the extension of credit; and
- Historically the Group has successfully arranged sufficient financing facilities and raised equity as required.

Should the Group not be successful in the completion of the GLIL Disposal or be unable to renegotiate or refinance existing or additional debt facilities or raise sufficient funds through future equity issues or other alternatives such as the sale or partial sale of its assets, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. Basis of consolidation**(i) Business combinations**

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

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Group measures goodwill at the acquisition date as:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of consolidation (continued)

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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

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

(ii) Subsidiaries

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

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, cash and cash equivalents, available-for-sale financial assets and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognised in profit or loss when incurred. These assets are initially measured at fair value and changes there in are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**b. Financial instruments (continued)**

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Available-for-sale financial assets

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

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss and other financial liabilities category. Financial liabilities at fair value through profit or loss are initially measured at fair value and changes therein are recognised in profit or loss. Attributable transaction costs are recognised in profit or loss when incurred. Also refer to Note 3(h).

Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Derivatives are initially recognised at fair value and any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value with changes recognised in profit or loss.

c. Exploration and evaluation assets

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

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

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

- a) The rights to tenure of the area of interest are current; and
- b) At least one of the following conditions is also met:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Exploration and evaluation assets (continued)

- i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; or
- ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing. Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Intangible exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling, trenching, and sampling;
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource; and
- General and administrative costs allocated to, and included in, the cost of exploration and evaluation assets only to the extent that those costs can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Tangible exploration and evaluation assets include:

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

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

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

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

Impairment testing of exploration and evaluation assets

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

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

Where a potential impairment is indicated, an assessment is performed for each cash generating unit ("CGU") which is no larger than the area of interest. The Group performs impairment testing in accordance with AASB 136.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Property, plant and equipment

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

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

Subsequent costs

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

Assets under construction

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

Development expenditure

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

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

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

Development expenditure includes the following:

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

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

Depreciation

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

• Freehold land	Not depreciated
• Plant and equipment	3 – 20 years
• Development expenditure	Units of production basis over the total estimated proven and probable reserves related to the area of interest

De-recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Impairment of assets

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

Financial assets measured at amortised cost

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

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

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

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

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

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Impairment of assets (continued)

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

f. Inventories

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

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

g. Revenue recognition

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

h. Convertible bonds

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

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

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

i. 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.

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

Provision for rehabilitation

In accordance with the group's published environmental policy and applicable legal requirements, a provision for site restoration is recognised in respect of the estimated cost of rehabilitation, decommissioning and restoration of the area disturbed during mining activities up to reporting date, but not yet rehabilitated. Such activities include dismantling infrastructure, removal and treatment of waste material, and land rehabilitation, including recontouring, topsoiling and revegetation of the disturbed area.

The amount recognised as a liability represents the estimated future costs discounted to present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost in the profit or loss.

The site restoration provision is separated into current (estimated costs arising within twelve months from balance date) and non-current components based on expected timing of cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Provisions (continued)

A corresponding asset is recognised in Property, Plant and Equipment only to the extent that it is probable that future economic benefits associated with rehabilitation, decommissioning and restoration expenditure will flow to the entity. The asset is depreciated using the unit of production basis over the total estimated proven and probable reserves related to the area of interest.

Costs arising from unforeseen circumstances, such as contamination from discharge of a toxic material, are recognised as a provision with a corresponding expense recognised in the profit or loss when an obligation, which is probable and capable of reliable estimation, arises.

At each reporting date the site restoration provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and are added to, or deducted from, the related asset where it is probable that future economic benefits will flow to the entity.

j. Leased assets

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

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

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

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

k. Finance income and finance costs

Finance income represents interest income on funds invested and fair value gains/losses on financial assets/liabilities at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, bank charges, fair value losses or gains on financial assets/liabilities at fair value through profit or loss.

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

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

l. Foreign currency

The consolidated financial statements are presented in Australian dollars, which is the functional currency of the Company and its Australian subsidiary. The functional currencies of the Company's Hong Kong subsidiary, PRC subsidiary, US subsidiaries, Canadian subsidiaries and Argentinian subsidiary are Hong Kong dollars ("HKD"), Renminbi ("RMB"), US dollars ("USD"), Canada dollars ("CAD") and Argentine Pesos ("ARG") respectively.

Foreign currency translations

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 reporting date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Foreign currency (continued)

Foreign currency transactions

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency of the entity at foreign exchange rates ruling at the dates the fair value was determined.

Foreign operations

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

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

m. Employee benefits

Defined contribution retirement plans

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

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees (including directors) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of employee share options is measured using a Black & Scholes option valuation model ("Black & Scholes") or Monte-Carlo valuation model ("Monte-Carlo"). Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility).

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Employee benefits (continued)

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

n. Taxes

Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses.

The following are temporary differences for which deferred taxes are not provided: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

Goods and Services Tax (GST) or Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant taxation authorities. In these circumstances the GST or VAT 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 or VAT included. The net amount of the GST or VAT recoverable from, or payable to, the relevant taxation authorities is included as a current asset or liability in the balance sheet.

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

Tax consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Operating segments

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

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

p. Share capital

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

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

q. Loss per share

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

r. Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

s. New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 *Financial Instruments* (2013), AASB 9 *Financial Instruments* (2010) and AASB 9 *Financial Instruments* (2009) (together AASB 9)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additional changes relating to financial liabilities.

The IASB currently has an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets. AASB 9 (2013) introduces new requirements for hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2017. The effective date is subject to review pending the finalisation of the outstanding phases of the standard. However, early adoption is permitted.

The Group has not yet determined the potential impact of this standard.

4. REVENUE

Revenue in 2013 consists solely of income received by the Group from the sale of lithium carbonate and spodumene. Income received by the Group for by-products is deducted from cost of goods sold.

	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
	\$	\$
Sale of goods	32,183,436	9,435,288

5. FINANCE INCOME AND FINANCE COSTS

	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
	\$	\$
Finance income		
Interest income on cash assets	134,736	314,505
Net Foreign exchange gains	2,371,804	-
Convertible bonds change in fair value	-	7,636,030
	<u>2,506,540</u>	<u>7,950,535</u>
Finance costs		
Interest expense on financial liabilities	(13,596,505)	(6,814,244)
Impairment loss on available-for-sale financial assets (note 16)	(95,000)	(25,000)
Bank charges	(979,885)	(178,882)
Convertible bonds transaction costs	(11,483)	(15,772)
Convertible bonds change in fair value	(1,125,059)	-
Net Foreign exchange losses	-	(143,252)
Option asset change in fair value	(2,959,000)	(986,000)
Transaction costs for unsecured loan	(800,000)	-
	<u>(19,566,932)</u>	<u>(8,163,150)</u>
Net finance costs	<u>(17,060,392)</u>	<u>(212,615)</u>

6. LOSS BEFORE TAXATION

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

	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
	\$	\$
(a) Staff costs		
Contributions to defined contribution retirement plans	(226,809)	(292,283)
Equity settled share-based payment expenses	(448,892)	(15,546,876)
Salaries, wages and other benefits	(4,936,683)	(6,019,491)
	<u>(5,612,384)</u>	<u>(21,858,650)</u>
(b) Other items		
Operating lease charges for property rental	<u>(687,420)</u>	<u>(710,658)</u>

7. AUDITOR'S REMUNERATION

	Year ended 31 December 2013	Year ended 31 December 2012
	\$	\$
Audit services		
Auditors of the Company		
<i>KPMG Australia:</i>		
- Audit and review of financial reports	(342,339)	(377,712)
<i>KPMG People's Republic of China</i>		
- Audit and review of financial reports	(50,000)	(70,000)
	<u>(392,339)</u>	<u>(447,712)</u>
Other services		
Auditors of the Company		
<i>KPMG Australia:</i>		
- Taxation services	(207,521)	(245,144)
- Other assurance services	(138,000)	(175,427)
<i>KPMG People's Republic of China</i>		
- Taxation services	-	(5,000)
	<u>(345,521)</u>	<u>(425,571)</u>

8. INCOME TAX

(a) A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the company's effective income tax rate for the Periods ended 31 December 2013 and 31 December 2012 is as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
	\$	\$
Accounting profit (loss) before tax from continuing operations	(104,858,284)	(127,894,316)
Loss before tax from discontinued operations	-	-
Accounting profit (loss) before income tax	<u>(104,858,284)</u>	<u>(127,894,316)</u>
At the statutory income tax rate of 30%	31,457,485	38,368,295
Non-deductible expenses	(2,615,795)	(5,292,186)
Tax effect on temporary differences	(6,412,679)	(12,600,487)
Tax losses not brought to account as a deferred tax asset	(27,494,950)	(20,767,585)
Adjustment in respect of current income tax	-	291,963
Research and development tax concession benefit	1,346,740	-
Income tax benefit	<u>1,346,740</u>	<u>-</u>

- (i) The statutory tax rate applicable to the Company and the Australian subsidiary was 30% during the Relevant Period. No provision for Australian taxation was made during the Relevant Period as the Company and the Australian subsidiary sustained losses for taxation purposes.
- (ii) Hong Kong's statutory tax rate was 16.5%. No provision for Hong Kong Profits Tax was made for the Hong Kong subsidiary incorporated in July 2009 as it did not have assessable profits subject to Hong Kong Profits Tax for 2013 and 2012.
- (iii) The statutory tax rate applicable to the subsidiary established in the PRC in February 2010 was 25%. No provision for the PRC profits tax was made as the PRC subsidiary suffered loss for taxation purposes in 2013 and 2012.

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 Ltd (Group).

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 Ltd (Group).



8. INCOME TAX (CONTINUED)

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31 December 2013 \$	31 December 2012 \$	31 December 2013 \$	31 December 2012 \$	31 December 2013 \$	31 December 2012 \$
<i>CONSOLIDATED</i>						
Cash and cash equivalent	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Property, plant and equipment	(25,822,536)	(19,566,755)	-	749,784	(25,822,536)	(18,816,971)
Investments in subsidiaries and available for sale financial assets	(274,500)	(246,000)	-	-	(274,500)	(246,000)
Exploration, evaluation and development expenditure	-	-	1,584,441	1,445,709	1,584,441	1,445,709
Loans to Subsidiaries	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Trade and other payables	-	(56,279)	-	-	-	(56,279)
Receivable	-	-	8,864	14,250	8,864	14,250
Provisions	(737,434)	(481,435)	3,831	-	(732,803)	(481,435)
Other	(1,794,094)	(2,116,264)	-	-	(1,794,094)	(2,116,264)
Borrowing costs	(455,925)	(805,493)	-	-	(455,925)	(805,493)
Unrealised foreign exchange losses (gains)	-	(11,391)	-	-	-	(11,391)
DTA not taken to account	27,486,552	21,073,873	-	-	27,486,552	21,073,873
<i>Tax (assets) liabilities</i>	(1,597,136)	(2,209,743)	1,597,136	2,209,743	-	-
Set off of tax	1,597,136	2,209,743	(1,597,136)	(2,209,743)	-	-
<i>Net tax (assets) liabilities</i>	-	-	-	-	-	-

8. INCOME TAX (CONTINUED)**(c) Unrecognised deferred tax assets**

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

	Year ended 31 December 2013	Year ended 31 December 2012
	\$	\$
Transaction costs for issue of shares	1,610,370	1,610,370
Other deductible temporary differences	27,492,851	21,080,172
Unused tax losses	78,219,075	50,724,125
	107,322,296	73,414,667

9. KEY MANAGEMENT PERSONNEL DISCLOSURES**Equity instrument disclosures relating to key management personnel**

The movement during the reporting period in the number of options over ordinary shares and number of ordinary shares in Galaxy Resources Limited held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

31 December 2013

Name	Balance at the start of the year	Changes during the year	Granted during the year	Balance at the end of the year
(1) Shares				
Directors				
M R Rowley (1)	-	3,849,440	-	3,849,440
J N Zhang (1)	-	-	-	-
C L Readhead (2)	4,543,388	-	-	N/A
R J Wanless (2)	1,948,493	-	-	N/A
I K S Tan (3)	312,500	-	-	N/A
C B F Whitfield	1,161	(1,161)	-	-
A P Tse	-	-	-	-
K C Kwan	-	-	-	-
X Ren (4)	37,584,912	-	-	N/A
Y Zheng (5)	37,584,912	-	-	N/A
M Spratt (5)	-	-	-	-
S Wu (5)	-	-	-	-
Other Key Management Personnel				
J A Sobolewski	-	-	-	-
T A Stark (6)	350,286	-	-	N/A
A M Sheth (6)	59,481	-	-	N/A
J Liu	-	-	-	-
A L Meloncelli	18,247	18,247	-	36,494
Total shares	82,403,380	3,866,526	-	3,885,934

9. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**Equity instrument disclosures relating to key management personnel (continued)**

Name	Balance at the start of the year	Changes during the year	Granted during the year	Balance as the end of the year	Vested during the year	Vested and exercisable at 31 December 2013
(2) Options						
Directors						
M R Rowley (1)	-	-	-	-	-	-
J N Zhang (1)	-	-	-	-	-	-
C L Readhead (2)	3,250,000	(3,000,000)	-	250,000	-	N/A
R J Wanless (2)	2,750,000	(2,750,000)	-	-	-	-
I K S Tan (3)	10,500,000	(9,500,000)	-	1,000,000	-	N/A
C B F Whitfield	1,000,000	-	-	1,000,000	-	-
A P Tse	1,000,000	-	-	1,000,000	-	-
K C Kwan	1,000,000	-	-	1,000,000	-	-
X Ren (4)	1,000,000	(1,000,000)	-	-	-	-
Y Zheng (5)	1,500,000	(1,500,000)	-	-	-	-
M Spratt (5)	1,000,000	(1,000,000)	-	-	-	-
S Wu (5)	-	-	-	-	-	-
Other Key Management Personnel						
J A Sobolewski	2,200,000	-	-	2,200,000	-	450,000
T A Stark (6)	3,800,000	(1,750,000)	-	2,050,000	-	N/A
A M Sheth (6)	2,350,000	(1,750,000)	-	600,000	-	N/A
J Liu	900,000	-	-	900,000	-	200,000
A L Meloncelli	2,000,000	-	-	2,000,000	-	1,000,000
Total options	34,250,000	(22,250,000)	-	12,000,000	-	1,650,000

Name	Balance at the start of the year	Issued during the year	Exercised during the year	Balance as the end of the year
(3) Listed Options				
Directors				
M R Rowley (1)	-	2,887,080	-	2,887,080
J N Zhang (1)	-	-	-	-
C L Readhead (2)	-	-	-	-
R J Wanless (2)	-	-	-	-
I K S Tan (3)	-	-	-	-
C B F Whitfield	-	-	-	-
A P Tse	-	-	-	-
K C Kwan	-	-	-	-
X Ren (4)	-	-	-	-
Y Zheng (5)	-	-	-	-
M Spratt (5)	-	-	-	-
S Wu (5)	-	-	-	-
Other Key Management Personnel				
J A Sobolewski	-	-	-	-
T A Stark (6)	-	-	-	-
A M Sheth (6)	-	-	-	-
J Liu	-	-	-	-
A L Meloncelli	-	27,371	-	27,371
Total options	-	2,914,451	-	2,914,451

1. Appointed 28 November 2013.
2. Resigned 28 November 2013.
3. Resigned 11 June 2013.
4. Resigned 7 November 2013.
5. Resigned 30 April 2013.
6. Ceased 27 September 2013.

9. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**Equity instrument disclosures relating to key management personnel (continued)****31 December 2012**

Name	Balance at the start of the year	Changes during the year	Granted during the year	Balance at the end of the year
(1) Shares				
Directors				
C L Readhead	3,805,556	737,832	-	4,543,388
R J Wanless	2,040,493	(92,000)	-	1,948,493
I K S Tan	69,000	243,500	-	312,500
C B F Whitfield	41,361	(40,200)	-	1,161
A P Tse	-	-	-	-
K C Kwan	-	-	-	-
X Ren	38,091,616	(506,704)	-	37,584,912
Y Zheng	38,091,616	(506,704)	-	37,584,912
M Spratt	-	-	-	-
S Wu	-	-	-	-
Other Key Management Personnel				
J A Sobolewski	-	-	-	-
T A Stark	350,286	-	-	350,286
A M Sheth	40,000	19,481	-	59,481
P M Tornatora (1)	310,000	(310,000)	-	-
J Liu	-	-	-	-
A L Meloncelli	15,000	3,247	-	18,247
Total shares	82,854,928	(451,548)	-	82,403,380

Name	Balance at the start of the year	Changes during the year	Granted during the year	Balance as the end of the year	Vested during the year	Vested and exercisable at 31 December 2012
(2) Options						
Directors						
C L Readhead	3,250,000	-	-	3,250,000	-	750,000
R J Wanless	2,750,000	-	-	2,750,000	-	750,000
I K S Tan	10,500,000	-	-	10,500,000	-	1,000,000
C B F Whitfield	1,000,000	-	-	1,000,000	-	-
A P Tse	1,000,000	-	-	1,000,000	-	-
K C Kwan	1,000,000	-	-	1,000,000	-	-
X Ren	1,000,000	-	-	1,000,000	-	-
Y Zheng	1,500,000	-	-	1,500,000	-	-
M Spratt	1,000,000	-	-	1,000,000	-	-
S Wu	-	-	-	-	-	-
Other Key Management Personnel						
J A Sobolewski	2,200,000	-	-	2,200,000	-	450,000
T A Stark	3,800,000	-	-	3,800,000	-	2,050,000
A M Sheth	2,350,000	-	-	2,350,000	-	600,000
P M Tornatora (1)	900,000	-	-	900,000	-	-
J Liu	900,000	-	-	900,000	-	200,000
A L Meloncelli	2,000,000	-	-	2,000,000	-	1,000,000
Total options	35,150,000	-	-	35,150,000	-	6,800,000

(3) Listed Options - Nil.

1. Resigned 31 January 2012.

10. CONTINGENT ASSETS AND LIABILITIES

There are no material contingent assets or liabilities as at 31 December 2013 (2012: None).

11. LOSS PER SHARE

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

	<u>Year ended 31 December 2013</u>	<u>Year ended 31 December 2012</u>
Basic and diluted loss per share (cents)	(14.34)	(29.95)
Loss attributable to the ordinary shareholders of the Company	(103,511,544)	(127,894,316)
Weighted average number of shares		
Issued ordinary shares at beginning of the year	560,357,421	323,327,000
Effect of share options exercised	263,272	-
Effect of shares issued	160,774,874	103,661,750
Weighted average number of ordinary shares outstanding in year	<u>721,395,567</u>	<u>426,988,750</u>

All potentially dilutive instruments comprising the Convertible Bonds and employee share options were antidilutive in 2013 and 2012. Therefore, diluted loss per share is the same as basic loss per share.

12. OPERATING SEGMENTS

The Group has managed its businesses by geographic location, which resulted in two operating and reportable segments which consisted of Australian operation and the PRC operation as set out below. This is consistent with the way in which information is reported internally to the Group's Managing Director for the purposes of resource allocation and performance assessment.

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

(a) Segment results and assets

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

- Segment results are profit or loss before taxation which is measured by allocating revenue and expenses to the reportable segments according to geographic location which they arose in or related to.
- Segment assets include property, plant and equipment, lease prepayment and exploration and evaluation assets. The geographical location of the segment assets is based on the physical location of the assets.

12. OPERATING SEGMENTS (CONTINUED)

	For the twelve months ended 31 December 2013					
	Australia operation		China operation		Total	2012
	2013	2012	2013	2012		
	\$	\$	\$	\$	\$	\$
Revenue from external customers	-	5,688,417	32,183,436	3,746,871	32,183,436	9,435,288
Depreciation and amortisation	(6,864,188)	(7,319,773)	(12,629,068)	(3,086,295)	(19,493,256)	(10,406,068)
Finance income	-	7,943,980	450,624	6,555	450,624	7,950,535
Finance costs	(8,147,572)	(6,326,951)	(7,914,512)	(1,836,199)	(20,106,888)	(8,163,150)
Reportable segment loss before income tax	(44,744,098)	(114,319,204)	(28,713,631)	(13,575,112)	(73,457,729)	(127,894,316)
Other material non-cash items:						
Impairment loss on available-for-sale financial assets	-	-	-	-	-	-
Impairment on property, plant and equipment	(35,598,548)	(49,000,000)	-	-	(35,598,548)	(49,000,000)
Reportable segment interest bearing liabilities	62,826,526	59,249,585	120,830,554	108,895,039	183,657,080	168,144,624
Reportable segment assets	9,724,367	55,831,845	172,973,025	158,289,051	182,697,392	214,120,895
Additions to non-current segment assets during the period	83,125	6,215,355	5,393,956	37,854,165	5,477,081	44,069,520

(b) Reconciliations of reportable segment profit or loss, assets and liabilities and other material items

Inter-segment revenue from the Australian operation to the China operations was \$24,398,506 (2012: \$10,584,567).

The reconciliation between reportable segment assets and the Group's consolidated total assets as at the end of the financial year is as follows:

	2013	2012
Assets	\$	\$
Total assets for reportable segments	182,697,392	214,120,895
Exploration and evaluation assets *	131,828,867	130,958,883
Available-for-sale financial assets	101,734	216,196
Property, Plant and Equipment	446,150	-
Other receivables	107,472	136,288
Cash and cash equivalents	2,840,290	7,718,527
Consolidated total assets	318,021,905	353,150,789

*Includes \$121,189,338 of exploration and evaluation assets in Argentina and Canada which were acquired as part of the Lithium One Inc acquisition. Refer to note 15.

	2013
Profit or loss	\$
Total loss for reportable segments	(73,457,729)
Loss for other segments	(9,577,092)
	(83,034,821)
Elimination of inter segment transactions	(21,823,463)
Consolidated loss before tax	(104,858,284)

13. PROPERTY, PLANT AND EQUIPMENT

Group Cost	31 December 2013	31 December 2012
	\$	\$
<i>Land</i>		
Balance at beginning of the year	1,411,742	1,172,000
Additions	-	239,742
Balance at end of the year	<u>1,411,742</u>	<u>1,411,742</u>
<i>Plant and equipment</i>		
Balance at beginning of the year	256,441,152	122,726,696
Additions	303,077	1,030,029
Effect of foreign exchange	26,335,632	(9,596)
Disposals	(840,588)	(261,405)
Acquired during merger	-	782,188
Transfer from assets under construction	264,480	132,173,240
Balance at end of the year	<u>282,503,753</u>	<u>256,441,152</u>
<i>Assets under construction</i>		
Balance at beginning of the year	374,236	90,394,578
Additions	5,215,190	43,142,749
Effect of foreign exchange	-	(989,851)
Transfer to plant and equipment	(264,480)	(132,173,240)
Balance at end of the year	<u>5,324,946</u>	<u>374,236</u>
<i>Development expenditure</i>		
Balance at beginning of the year	17,707,736	17,707,736
Additions	-	-
Balance at end of the year	<u>17,707,736</u>	<u>17,707,736</u>
Total Property, Plant and Equipment		
Balance at end of the year	<u>306,948,177</u>	<u>275,934,866</u>
Accumulated depreciation and impairment Losses		
<i>Land</i>		
Balance at beginning and end of the year	-	-
<i>Plant and equipment</i>		
Balance at beginning of the year	92,243,153	38,004,913
Depreciation	20,821,754	10,022,554
Effect of foreign exchange	619,752	-
Disposals	(548,527)	(55,904)
Acquired during merger	-	171,590
Impairment loss (i)	31,846,713	44,100,000
Balance at end of the year	<u>144,982,845</u>	<u>92,243,153</u>
<i>Assets under construction</i>		
Balance at beginning and end of the year	-	-
<i>Development expenditure</i>		
Balance at beginning of the year	13,955,900	8,718,670
Depreciation	-	337,230
Impairment loss (i)	3,751,836	4,900,000
Balance at end of the year	<u>17,707,736</u>	<u>13,955,900</u>
Total		
Balance at end of the year	<u>162,690,581</u>	<u>106,199,053</u>
<i>Carrying amounts</i>		
Land	1,411,742	1,411,742
Plant and equipment	137,520,908	164,197,999
Assets under construction	5,324,946	374,236
Development expenditure	-	3,751,836
Total property, plant and equipment	<u>144,257,596</u>	<u>169,735,813</u>

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Impairment property, plant and equipment**

(i) Mt Cattlin and the Jiangsu Lithium Carbonate plant have previously been considered to form one cash generating unit for the purpose of impairment testing. Following a change in the group's strategy and expected cash inflows from these assets, the allocation of assets to cash generating units was changed at 31 December 2013 and Mt Cattlin and the Jiangsu Lithium Carbonate plant were tested separately for impairment.

An impairment expense of \$35,598,549 has been recognised in relation to property, plant & equipment and development expenditure at Mt Cattlin, which is part of the Australian operating segment (refer to note 12). The Mt Cattlin mine and processing plant operations have been suspended since March 2013.

In assessing the recoverable amount of the property, plant & equipment at Mt Cattlin, consideration was given to both value in use and fair value less costs to sell. The recoverable amount was determined based on fair value less costs to sell. Fair value less costs to sell was estimated based on an assessment of the level of interest expressed by potential 3rd parties to acquire Mt Cattlin as a whole or its component parts. This assessment observed that very limited interest presently exists in the market for assets of this nature.

14. LEASE PREPAYMENT

Group	31 December 2013	31 December 2012
	\$	\$
Cost		
Balance at beginning of the year	1,501,094	2,873,250
Subsidy received	-	(1,372,156)
Balance at end of the year	<u>1,501,094</u>	<u>1,501,094</u>
Accumulated amortisation		
Balance at beginning of the year	134,069	91,183
Amortisation	34,226	42,886
Balance at end of the year	<u>168,295</u>	<u>134,069</u>
Carrying amounts	<u>1,332,799</u>	<u>1,367,025</u>

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

15. EXPLORATION AND EVALUATION ASSETS

Group	31 December 2013	31 December 2012
	\$	\$
Cost:		
Balance at beginning of the year	135,782,341	7,424,728
Acquired during merger	-	121,189,338
Additions	8,069,401	7,168,275
Impairment (a)	(10,830,491)	-
Effect of foreign exchange	4,093,516	-
Balance at end of the year	<u>137,114,767</u>	<u>135,782,341</u>

(a) Impairment indicators were identified in relation to the James Bay exploration asset and certain of the group's Australian tenements. The impairment indicators arose due to one of the following:

- the group has decided to discontinue exploration activities in the particular area of interest; or
- the group is not currently planning substantive future exploration expenditure on the area of interest, because of a decision to focus activities elsewhere.

As a result, impairment tests were undertaken and resulted in an impairment expense of \$10,830,491 being recorded at 31 December 2013.

15. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

The estimated recoverable amount of James Bay is its fair value less to costs to sell, which has been determined based on the quoted price in an active market for a company that owns a similar comparable asset. In assessing the fair value, consideration was given to relative differences between James Bay and the comparable asset including the size of the resource and stage of exploration and development.

Where the group has decided to discontinue exploration activities in an area the asset has been written down to nil.

(b) On 4 July 2012 the Group acquired the Sal de Vida lithium project and James Bay project (80%) through the acquisition of 100% of Lithium One Inc. The acquisition of the Sal de Vida Project was not accounted for as a business combination because the set of activities acquired did not meet the definition of a business as required by Accounting Standards.

The details of the acquisition are as follows:

	\$
Consideration paid (141,154,917 shares issued)	80,458,325
Transaction cost capitalised	3,926,000
Total consideration	84,384,325
Assets/(Liabilities) Acquired	
Exploration/evaluation	121,189,338
Plant and equipment	601,338
Cash	6,191,345
Other	357,569
Payables	(5,552,621)
Convertible bonds	(5,646,242)
	117,140,727
Non-controlling interest*	(32,756,402)
Net assets acquired	84,384,325

*Interest relates to minority ownership of Sal De Vida by the Kores Joint Venture (SDVVC).

In June 2010, Galaxy Lithium One Inc and Galaxy Lithium (Sal de Vida) S.A. ("GLSSA") entered into an agreement with Sal de Vida Korea Corporation ("SDVVC"), which granted SDVVC a 4% equity interest in GLSSA. GLSSA is the Galaxy subsidiary that owns the Sal de Vida Lithium Brine and Potash project ("Sal de Vida").

Under the agreement SDVVC was also granted an option to increase its equity interest in GLSSA to 30%. SDVVC had 90 days from the delivery of the Sal de Vida Feasibility Study, which was required to meet certain criteria set out in the agreement, to exercise its option.

Galaxy delivered a Feasibility Study to SDVVC on 13 April 2013. After SDVVC's request for further time to consider its position, Galaxy extended that date to 17 July 2013 to enable SDVVC to consider further information provided in connection with the Feasibility Study. SDVVC has now advised Galaxy that it does not consider the Feasibility Study to satisfy all the criteria set out in the Option Agreement so as to trigger the 90 day option period.

Galaxy believes that a Feasibility Study meeting the criteria set out in the agreement was supplied to SDVVC and therefore the option has now expired. As a result, SDVVC's non-controlling interest in GLSSA is now recognised at 4% in these financial statements having previously been recognised at 30% (refer to Consolidated Statement of Changes in Equity).

SDVVC has disputed Galaxy's view and if the matter were to proceed to arbitration there is a possibility that SDVVC would be successful. In this instance SDVVC could increase their interest to 30% with Galaxy's interest reverting to 70%. This would result in a corresponding increase in the non-controlling interest recorded in the financial statements.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Equity securities, at fair value	<u>101,734</u>	<u>216,196</u>

As at 31 December 2013, the Group's available-for-sale financial assets were individually determined to be impaired on the basis of a significant decline in their fair value below cost. Adverse changes in the market in which these investees operated indicated that the cost of the Group's investment in them may not be recovered. As such, an impairment loss of \$95,000 (2012: \$95,000) was recognised, which represented the excess of original cost over the fair value in accordance with the policy set out in note 3(e).

17. TRADE AND OTHER RECEIVABLES

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Current		
Trade receivables	9,656,837	1,448,507
Other receivables (note 17(a))	12,846,516	11,454,283
Prepayments	2,107,350	215,174
Others	133,080	57,880
	<u>24,743,783</u>	<u>13,175,844</u>
Non-Current		
Security bonds (note 17(b))	-	1,232,000
Other receivables and prepayments	329,491	3,539,396
Call option asset	-	1,514,000
	<u>329,491</u>	<u>6,285,396</u>
	<u>25,073,274</u>	<u>19,461,240</u>

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

(b) The non-current security bonds mainly relate to a restoration performance bond paid by the Group to the Australian government authorities to secure the Group's mining lease for the Mt. Cattlin spodumene mine. The bond is interest-bearing at 2.44%, unsecured and repayable once rehabilitation of the Mt. Cattlin spodumene mine is completed to the Western Australian Government's satisfaction. This security bond was returned during 2013 and future annual payments will be required instead, the amount of which has yet to be finalised.

18. CASH AND CASH EQUIVALENTS

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Current		
Cash at bank and on hand	2,840,290	7,718,527
	<u>2,840,290</u>	<u>7,718,527</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 29.

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

	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Loss for the period	(103,511,544)	(127,894,316)
Adjustment for:		
Depreciation and amortisation	20,821,754	10,406,068
Net finance costs	17,060,392	212,615
Impairment	46,429,040	49,000,000
Lithium One Inc acquisition transaction costs	-	(3,926,000)
Share-based payments	448,892	15,546,876
	<u>84,760,078</u>	<u>71,239,559</u>
Change in trade and other receivables	(9,675,763)	(5,802,060)
Change in payables	(1,140,374)	(3,619,324)
Change in inventories	11,615,832	(5,351,227)
Change in prepayments	(1,892,176)	(148,367)
Change in provisions and employee benefits	1,283,683	4,023,384
	<u>191,202</u>	<u>(10,897,594)</u>
Net cash used in operating activities	<u>(18,560,264)</u>	<u>(67,552,351)</u>

19. TRADE AND OTHER PAYABLES

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Trade and other payables	18,959,447	13,081,740
Amounts due to Allion Legal Pty Ltd (note 27 (a))	-	34,779
	<u>18,959,447</u>	<u>13,116,519</u>

Trade and other payables mainly represented amounts owing for engineering and construction services, accrued interest on convertible bonds and raw materials. These are expected to be settled within one year.

20. PROVISIONS

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Current		
Balance at the start of year	347,785	406,183
Decrease in Provision for annual leave	(318,717)	(58,938)
Balance at end of the year	<u>29,068</u>	<u>347,785</u>
Non-current		
Balance at the start of year	5,313,782	1,232,000
Increase in Provision for rehabilitation	1,557,400	4,081,782
Balance at end of the year	<u>6,871,182</u>	<u>5,313,782</u>

Non-current provisions relate to group's rehabilitation obligations in Australia and Canada.

Australia

A provision of \$2,400,000 is recognised in respect of the rehabilitation obligations for Mt Cattlin, which is an increase as of \$1,232,000 compared to the estimate in the 31 December 2012 financial statements.

The updated estimate has been based on a revised Mine Closure Report submitted to Department of Mines and Petroleum in Western Australia ("DMP"), which assumes the continuation of mining at Mt Cattlin to the end of its mine life. If the rehabilitation obligation were to be triggered before the end of the mine life a revised plan would need to be submitted and approved by DMP. Depending on the resulting requirements, the amount of the obligation could be materially different to the current provision estimate.

Canada

A provision of \$4,471,182 in respect of the restoration of the tailings site at a former Coniagas mining site in Canada. The timing and amount of the rehabilitation is subject to negotiations with government authorities in Quebec.

21. INTEREST BEARING LIABILITIES

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Current		
Unsecured bank loans (note 21(a))	120,830,554	48,529,575
Convertible Bonds (note 21(b))	58,124,526	59,249,585
Secured loan (note 21(c))	4,702,000	-
Balance at end of the year	<u>183,657,080</u>	<u>107,779,160</u>
Non Current		
Unsecured bank loans (note 21(a))	-	60,365,464
Convertible Bonds (note 21(b))	-	-
Secured loan (note 21(c))	-	-
Balance at end of the year	<u>-</u>	<u>60,365,464</u>

21. INTEREST BEARING LIABILITIES (CONTINUED)

a) Unsecured facilities with Chinese banks with terms as follows:

Bank	Loan	Facility RMB (millions)	Drawn RMB (millions)	Term (years)
China Construction Bank	Fixed assets	136.0	86.0	1-3
China Construction Bank	Fixed assets	129.6	114.6	1-5
China Construction Bank	Working capital	114.0	104.0	1
Shanghai Pudong Development Bank	Working capital	84.0	50.0	1-3
Industrial and Commercial Bank of China	Fixed assets	182.0	179.6	1-5
Industrial and Commercial Bank of China	Working capital	100.0	71.3	1

Bank	Loan	Facility USD (millions)	Drawn USD (millions)	Term (years)
Industrial and Commercial Bank of China	Working capital	8.0	8.0	1

Interest rates on these facilities range from 6-7% per annum. Facilities require that Galaxy Lithium (Jiangsu) Co., Limited (GLJL) meet liquidity and asset to liability ratio covenants. Certain ratios were not complied with during the year.

At 31 December 2013, the Company's wholly owned subsidiary Galaxy Lithium (Jiangsu) Co. Limited (GLJL) was in breach of certain lending covenants under a bank facility. The breach constitutes a potential event of default which would allow the bank to demand immediate repayment of amounts owing. Default clauses in other of GLJL's facility agreements would then allow those banks to identify a default event and demand immediate repayment of their facilities. For this reason all of the Group's unsecured bank loans have been classified as a current liability at 31 December 2013 in accordance with the requirements under accounting standards. GLJL has not requested nor received a formal waiver for this breach.

b) The bonds have a maturity date of 19 November 2015 with a 2% increase in the coupon rate from 8% to 10% coupon per annum (no other variation in terms).

A\$1.5 million was converted into shares and options by the Bondholders during the year and at 31 December 2013 A\$60 million principal is outstanding.

The Trust Deed contains default clauses in respect to other lending facilities of the Group (refer note 21(a)). These clauses can be enacted should a formal event of default be pursued by other lenders. As at 31 December 2013 all of the Group's convertible bonds have been classified as a current liability in accordance with the requirements under accounting standards.

c) Galaxy entered into a A\$5 million subordinated secured short term loan facility ("Facility") in July 2013 with a lending consortium ("Consortium"). The Consortium is made up of existing, largely European-based institutional shareholders of Galaxy and was arranged by Galaxy's Special Management Committee in July 2013. As at 31 December 2013, Galaxy had utilised A\$4.7 million of the Facility.

The short term loan facility funds have been made available to provide additional near term funding for general corporate purposes was due to be repaid on 1 November 2013. Interest rates on this facility are 10% per annum and secured by the Company Interests in the Sal De Vida Project. Subsequent to the year end the facility has been renegotiated with additional funds of A\$2.3 million being made available and the repayment date has been extended to 31 July 2014.

22. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

At the Annual General Meeting held on 23 May 2012, the shareholders approved a change to amend the option vesting terms to remove the Stock Exchange of Hong Kong Listing vesting criteria for certain options. The market price of the ordinary shares on 23 May 2012 was \$0.60. Other than this, there were no changes in the terms of those options and there was no change in the fair value of the options.

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

(i) Options granted to directors

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

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

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

(i) Options granted to directors (continued)

Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
04/06/2010	J	3,000,000	Completion of 18 months of service from date of grant and increase shareholder returns by 68% measured by 5 day volume-weighted-average-price being greater than \$2.00 per share	None	5 years from the vesting date	\$1.06
22/12/2010	K1	15,000,000	Latest to occur of completion of 12 months service from 13 October 2010, and the Company's share price being greater than A\$2 based on the 10 day VWAP.	None	5 years from the vesting date	\$1.40
16/05/2011	K3	2,000,000	Latest to occur of completion of 12 months service from 13 October 2010, and the Company's share price being greater than A\$2.00 based on 10 day VWAP	None	5 years from the vesting date	\$1.01

(ii) Options granted to third parties

Grant date	Options classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
29/06/2007	Advisor 1	750,000	Vested immediately	None	Expired on 30 January 2010	\$0.66
04/06/2010	Advisor 2	1,000,000	Vested immediately	None	Expired on 30 June 2012	\$1.02

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

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

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

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

(iii) Options granted to employees

Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
17/04/2009	D2	4,100,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	\$0.43
17/04/2009	E2	2,850,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$0.43
17/04/2009	F	750,000	Fully vested	None	5 years from the grant date	\$0.43
14/10/2009	D3	1,250,000	Fully vested	Each option shall vest on completion of the Company securing all necessary debt and equity funding for the development of the Mt Cattlin project	5 years from satisfaction of non-vesting conditions	\$1.92
23/11/2009	G2	4,000,000	Fully vested	Each option will be issued on completion of the Company securing all necessary debt and equity funding for the development of the Jiangsu lithium carbonate plant	5 years from satisfaction of non-vesting conditions	\$1.60
10/03/2010	E3	850,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Mt Cattlin project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$1.24
10/03/2010	H	2,200,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Jiangsu project for 3 consecutive months	5 years from satisfaction of non-vesting conditions	\$1.24
10/03/2010	I	3,600,000	Completion of 18 months of employment	None	5 years from the vesting date	\$1.24
22/12/2010	K2	14,800,000	Latest to occur of completion of 12 months service from 13 October 2010, and the Company's share price being greater than A\$2 based on the 10 day VWAP.	None	5 years from the vesting date	\$1.40

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

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

(iii) Options granted to employees (continued):

Grant date	Options Classes	Number of instruments	Vesting conditions	Non-vesting conditions	Contractual life of option	Market value per share at date of grant of options
24/03/2011	L	3,650,000	Latest to occur of completion of 18 months service from 24 February 2011, and Company's share price being greater than A\$2.00 based on a 10 day VWAP.	None	3 years from the vesting date	\$1.33
13/02/12	H	1,000,000	Fully vested	Each option shall vest on achievement of commercial production of lithium concentrate at the nameplate capacity specified in the final plant design at the Company's Jiangsu project for 3 months.	5 years from the vesting date	\$0.81
13/02/12	M	7,550,000	Latest to occur of completion of 18 months service from 30 November 2011, and the Company's share price being greater than A\$2.00 based on a 10 day VWAP.	None	3 years from the vesting date	\$0.81

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

	Year ended 31 December 2013		Year ended 31 December 2012	
	Weighted average exercise price \$	Number of options '000	Weighted average exercise price \$	Number of options '000
Outstanding at the beginning of the year	1.04	58,850	1.02	51,300
Exercised during the year	N/A	N/A	N/A	N/A
Forfeited during the year	N/A	N/A	N/A	N/A
Expired during the year	1.04	29,450	1.00	1,000
Granted during the year	N/A	N/A	1.16	8,550
Outstanding at the end of the year	1.05	29,400	1.04	58,850
Exercisable at the end of the year	0.81	9,500	0.81	9,500

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

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of these share options granted is measured using generally accepted valuation techniques including Black & Scholes and Monte-Carlo (K1, K2, K3 and L) simulations. The Company has applied an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

Fair value of share options and assumptions per class issued	D1	D2	D3	E1	E2	F	G1	G2	E3	H	I	J	Advisor 2
Fair value at grant date	0.29	0.33	1.41	0.29	0.33	0.33	1.41	0.92	1.00	1.00	1.03	0.77	0.64
Share price at grant date	0.39	0.43	1.92	0.39	0.43	0.43	1.92	1.60	1.24	1.24	1.24	1.06	1.02
Exercise price (\$)	0.60	0.60	0.60	0.60	0.60	0.45	0.60	0.90	1.11	1.11	1.11	0.96	1.00
Expected volatility (%) (weighted average volatility)	101.60	101.30	99.60	101.60	101.30	101.30	99.60	99.13	97.00	97.00	97.00	97.00	92.00
Option life (years)	5.7	5.6	1.0	5.6	5.6	5.0	1.0	1.0	5.6	5.6	6.5	6.5	2.1
Expected dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk-free interest rate (%) (based on government bonds)	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
Probability applied to the non-vesting conditions	30%	30%	100%	10%	10%	100%	100%	100%	80%	60%	70%	N/A	100%

Fair value of share options and assumptions per class issued	K1	K2	K3	L	H	M
Fair value at grant date	0.94	0.94	0.29	0.52	0.44	0.15
Share price at grant date	1.35	1.35	1.06	1.33	0.81	0.81
Exercise price (\$)	1.16	1.16	1.16	1.16	1.16	1.16
Expected volatility (%) (weighted average volatility)	70.00	70.00	70.00	70.00	70.00	70.00
Option life (years)	6.00	6.00	6.13	4.42	5.25	4.29
Expected dividends	-	-	-	-	-	-
Risk-free interest rate (%) (based on government bonds)	5.43	5.43	5.19	5.13	3.65	3.65
Probability applied to the non-vesting conditions	N/A	N/A	N/A	N/A	N/A	N/A

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

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

Probability applied to the non-vesting conditions is based on management's judgement which was formed in consideration of all the facts and circumstances that were available to management at the grant date of each class of share options. Such facts and circumstances included the overall economy condition, lithium market condition, the Company's business plan and management's industry experience. Changes in the subjective probability ratios applied could materially affect the fair value estimate.

Certain share options were granted under service and non-market performance conditions. This condition has not been taken into account in the grant date fair value measurement. There were no market conditions associated with the share option grants, except for class J, K1, K2 and K3, which has been taken into account in measuring the grant date fair value.

23. INVENTORIES

	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Current		
Stores	4,768,325	4,445,106
Raw Materials	1,928,048	-
Finished Product – lithium carbonate	605,072	550,051
WIP	-	13,874,490
Carrying amount of inventories	<u>7,301,445</u>	<u>18,869,647</u>

Stores inventory is carried at cost. Raw Materials is presented at net realisable value (NRV). Write-downs of inventory to NRV are included in production costs. Lithium carbonate is presented at NRV.

24. CAPITAL AND RESERVES**a) Movements in components of equity**

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

b) Issued capital**i) Shares**

	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Ordinary shares, issued and fully paid		
Balance at the beginning of the year	407,170,372	271,457,219
Issue of shares	45,416,254	57,245,616
Merger with Lithium One Inc.	-	80,458,325
	<u>452,586,626</u>	<u>409,161,160</u>
Transaction costs	(4,125,992)	(1,990,788)
Balance at the end of the year	<u>448,460,634</u>	<u>407,170,372</u>
	Number of Shares	Number of Shares
Ordinary shares, issued and fully paid		
Balance at the beginning of the year	560,357,421	323,327,000
Issue of shares	466,701,257	95,875,504
Merger with Lithium One Inc.	-	141,154,917
Balance at the end of the year	<u>1,027,058,768</u>	<u>560,357,421</u>

The Company does not have authorised capital or par value in respect of issued ordinary shares. All issued shares are fully paid.

24. CAPITAL AND RESERVES (CONTINUED)**b) Share capital (continued)**

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

ii) Listed Options

	31 December 2013	31 December 2012
	Number of Listed	Number of Listed
	Options	Options
Ordinary shares, issued and fully paid		
Balance at the beginning of the year	-	-
Issue of listed options	662,753,287	-
Exercise of listed options	(867,853)	-
Balance at the end of the year	<u>661,885,434</u>	<u>-</u>

Issue of ordinary shares and listed options

On 2 July 2013, Galaxy announced a non-renounceable entitlement offer, which is a one (1) for one (1) pro-rata Offer of up to 584,355,501 new fully paid ordinary shares ("New Shares") at an offer price of \$0.08 per New Share. Applicants will also receive three (3) free attaching New Options for every two (2) New Shares subscribed.

The issue of the new shares and options increased the number of shares on issue from 560,357,421 to 1,027,058,768 and the number of listed options to 662,753,287. 867,853 listed options had been exercised as at 31 December 2013.

Terms of New Options

- Exercise Price - \$0.08;
- Expiry Date - 31 December 2014;
- Tradeable on the ASX.

iii) Shares issued under share option scheme

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

Options exercised by directors: Nil

Options exercised by employees: Nil

iv) Terms of unexpired and unexercised share options at each balance sheet date

Options issued to directors: Nil

Options issued to employees:

Exercise period	Exercise price	31 December 2013	31 December 2012
		Number	Number
Not exercisable until satisfaction of vesting conditions	\$1.16	-	8,550,000
Total		-	8,550,000

Options issued to third parties: Nil

c) Nature and purpose of reserves**i) Equity-settled payment reserve**

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

24. CAPITAL AND RESERVES (CONTINUED)**c) Nature and purpose of reserves (continued)****ii) Foreign currency translation reserve**

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

iii) Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(d) Capital Management

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

	2013	2012
	\$	\$
Total liabilities	209,516,777	186,922,710
Less: cash and cash equivalents	(2,840,290)	(7,718,527)
Net debt	<u>206,676,487</u>	<u>179,204,183</u>
Total equity	101,044,986	166,228,079
Net debt to equity ratio at 31 December	2.04	1.08

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

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

25. PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ended 31 December 2013, the parent company of the Group was Galaxy Resources Limited.

Result of the parent entity	31 December 2013	31 December 2012
	\$	\$
(Loss) for the year	(115,194,521)	(28,169,227)
Other comprehensive (loss)	-	-
Total comprehensive (loss) for the year	<u>(115,194,521)</u>	<u>(28,169,227)</u>
Financial Position of parent entity at year end		
Current Assets	2,380,144	6,004,881
Total Assets	315,641,761	381,862,726
Current Liabilities	(8,538,950)	(61,457,366)
Total Liabilities	<u>(68,791,767)</u>	<u>(61,457,366)</u>
Total equity of the parent entity comprising of:		
Contributed Equity	448,460,634	407,170,372
Reserves	17,882,651	37,026,734
Accumulated losses	(225,652,097)	(119,865,746)
Total Equity	<u>240,691,188</u>	<u>324,331,360</u>

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its Australian subsidiaries. Refer to note 31 for further details.

26. COMMITMENTS

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

i) Mining tenements

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

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Within one year	555,900	565,900

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

ii) Construction contract commitments

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Contracted for	-	5,159,692

It includes various capital commitments for property, plant and equipment as at each statement of financial position date.

b) As at each statement of financial position date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

Group	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Within one year	390,258	132,456
More than one year but less than five years	95,460	15,829
	<u>485,718</u>	<u>148,285</u>

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

27. RELATED PARTY TRANSACTIONS**Key management personnel and director transactions**

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Related party	Type of transaction	Note	Year ended 31 December 2013	Year ended 31 December 2012
Allion Legal Pty Ltd	Legal consulting	27(a)	610,529	859,000

(a) Allion Legal Pty Ltd is a related party being an entity over which Mr Craig Leslie Readhead has the capacity to exercise significant influence. Mr Readhead was the Chairman of the Company for the period 1 January 2013 to 28 November 2013.

27. RELATED PARTY TRANSACTIONS (CONTINUED)**Key management personnel and director transactions (continued)**

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

Apart from the amounts due to Allion Legal Pty Ltd as at 31 December 2012 as disclosed in note 19, there were no outstanding balances relating to the above transactions at each balance sheet date.

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and other key management personnel as disclosed in note 9 and certain of the highest paid employees as disclosed in note 9, is as follow:

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and other short-term emoluments	3,125,583	3,477,631
Contributions to retirement benefit schemes	158,461	206,193
Share-based payments	100,000	10,179,165
	3,384,044	13,862,989

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

Key management personnel disclosure**a) Directors**

The following persons were directors of Galaxy Resources Limited during the financial year:

(i) Chairman - non-executive

Martin Rowley
Craig Readhead

(ii) Executive directors

Ignatius Tan
Charles Whitfield
Anthony Tse

(iii) Non-executive directors

Jian-Nan Zhang
Robert Wanless
Kai Cheong Kwan
Xiaojian Ren
Yuewen Zheng
Michael Spratt
Shaoqing Wu

b) Other key management personnel

John Sobolewski (Chief Financial Officer)
Terry Stark (General Manager Operations)
Anand Sheth (General Manager Marketing & Business Development)
Jingyuan Liu (General Manager Development)
Andrew Meloncelli (Company Secretary)

27. RELATED PARTY TRANSACTIONS (CONTINUED)**Key management personnel disclosure (continued)**

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

Name of company	Place of incorporation/ establishment and operation	Type of legal entity	Proportion of ownership interest as at		Principal activity
			31 December 2013	31 December 2012	
Galaxy Lithium Australia Limited	Australia	Limited company	100%	100%	Mining of Mt Cattlin spodumene
Galaxy Lithium Proprietary Limited	Australia	Limited company	100%	100%	Dormant
Galaxy Lithium International Limited	Hong Kong	Limited company	100%	100%	Investment holding company
Galaxy Lithium (Jiangsu) Co., Limited	The PRC	Limited company	100%	100%	Operations of Jiangsu lithium carbonate plant
Galaxy Lithium (Canada) Inc.	Canada (Quebec)	Limited company	100%	100%	Exploration of James Bay spodumene deposits
Galaxy Lithium Holdings BV	The Netherlands	Limited company	100%	100%	Investment holding company
Galaxy Lithium (US) Inc.	United States (Delaware)	Limited company	100%	100%	Investment holding company
Galaxy Lithium One (Quebec) Inc. **	Canada (Quebec)	Limited company	100%	100%	Investment holding company
Galaxy Lithium One Inc. ***	Canada (Quebec)	Limited company	100%	100%	Investment holding company
Galaxy Lithium (Ontario) Inc. *	Canada (Ontario)	Limited company	100%	100%	Exploration of James Bay spodumene deposits
Galaxy Lithium (BC) Limited *	Canada (British Columbia)	Limited company	100%	100%	Investment holding company
Galaxy Lithium Holdings LLC *	United States (Delaware)	Limited company	100%	100%	Dormant
Galaxy Lithium (Colorado) Inc. *	United States (Colorado)	Limited company	100%	100%	Investment holding company
Galaxy Lithium (Sal de Vida) S.A.	Argentina (Salta)	Stock Company	99.99%**	99.99%**	Exploration and Development of Sal de Vida Project

* Acquired through plan of arrangement with Lithium One Inc (now known as Galaxy Lithium (Ontario) Inc) on 3 July 2012.

** Galaxy Lithium One (Quebec) Inc was incorporated in Canada on 26 March 2012.

*** Galaxy Lithium One Inc was incorporated in Canada on 26 March 2012.

27. RELATED PARTY TRANSACTIONS (CONTINUED)**Investments in subsidiaries**

Company	<u>31 December 2013</u>	<u>31 December 2012</u>
	\$	\$
Unlisted share - at cost	<u>24,483,301</u>	<u>1</u>

28. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 31 December 2013 and up to the date of this report, the following event has occurred:

- On 3 February 2014, the Company had suspended trading on the ASX;
- On 18 March 2014, the Company signed a further A\$2.3 million subordinated short term loan facility with a lending consortium into addition to A\$5 million subordinated short term loan facility signed, as announced to the ASX on 29 July 2013;
- On 18 March 2014, the Company announced that the wholly owned China subsidiary, Galaxy Lithium (Jiangsu) Co Ltd ("GLJL"), has entered into a spodumene tolling agreement with Sichuan Tianqi Lithium Industries, Inc. ("Sichuan Tianqi"), to produce lithium carbonate on their behalf ("Toll Agreement"). The Toll Agreement is initially for 12 months, with an option for further extension and is for up to 8,000 tons of industrial and battery grade products. Sichuan Tianqi will pay a toll treatment fee to GLJL, which will be responsible for production costs, excluding the cost of packaging;
- On 14 April 2014, the Company issued 25,000,000 unlisted options with exercise price of A\$0.08 and expiry date of 31 December 2014 to a lending consortium, as announced to the ASX on 29 July 2013;
- On 30 April 2014, Galaxy announced the signing of an agreement for the sale of its shares in wholly owned subsidiary Galaxy Lithium International Limited ("GLIL"), including the Jiangsu Lithium Carbonate Plant ("Jiangsu Plant") and associated bank debt of RMB 654 million (approximately \$A112 million) for US\$122 million (approximately \$A132 million), to Tianqi HK Co. Limited ("Tianqi"), ("The GLIL Disposal") which is part of the Sichuan Tianqi Lithium Industries Inc group ("Sichuan Tianqi"). Completion of the sale agreement is subject to Australian and PRC regulatory approval and both Galaxy and Sichuan Tianqi shareholder approval.

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.

29. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

(a) Credit risk

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

29. FINANCIAL RISK MANAGEMENT (CONTINUED)**(a) Credit risk (continued)**

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

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

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

Impairment

As at 31 December 2013, the Group's available-for-sale financial assets were individually determined to be impaired on the basis of a material decline in their fair value below cost. Adverse changes in the market in which these investees operated indicated that the cost of the Group's investment in them may not be recovered. As such, an impairment loss of \$95,000 (2012: \$25,000) was recognised in profit or loss, which represented the excess of original cost over the fair value in accordance with the policy set out in note 3(e).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

	Note	Carrying amount	
		2013	2012
Financial assets classified as available for sale	16	101,734	216,196
Trade and other receivables		25,073,274	17,732,066
Cash and cash equivalents	18	2,840,290	7,718,527
		28,015,298	25,666,789

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputations (refer note 2(e)).

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

Group as at 31 December 2013

	Carrying amount	Undiscounted contractual cash outflows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Trade and other payables	18,959,447	18,959,447	18,959,447	-	-	-
Unsecured bank loans	120,830,554	121,705,782	75,401,876	24,259,629	22,044,277	-
Secured loan	4,702,000	5,172,000	5,172,000	-	-	-
Convertible bonds	58,124,526	74,400,000	8,400,000	66,000,000	-	-
	202,616,527	220,237,229	107,933,323	90,259,629	22,044,277	-

29. FINANCIAL RISK MANAGEMENT (CONTINUED)**(b) Liquidity risk (continued)****Group as at 31 December 2012**

	Carrying amount	Undiscounted contractual cash outflows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Trade and other payables	13,116,519	13,116,519	13,116,519	-	-	-
Unsecured bank loans	108,895,039	119,813,615	53,945,912	32,600,612	33,267,091	-
Convertible bonds	59,249,585	66,420,000	66,420,000	-	-	-
	<u>181,261,143</u>	<u>199,350,134</u>	<u>133,482,431</u>	<u>32,600,612</u>	<u>33,267,091</u>	<u>-</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) Foreign exchange risk

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

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

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

Group	31 December 2013	31 December 2012
	USD	USD
Cash and cash equivalents	37,140	371,934
Interest bearing liabilities	(9,016,421)	(18,855,462)
Balance sheet exposure	<u>(8,979,281)</u>	<u>(18,483,528)</u>

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
US 1	0.967	1.035	0.887	1.037

Sensitivity analysis

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

Effect in Australian dollars	31 December 2013		31 December 2012	
	Equity	Loss for the period	Equity	Loss for the period
USD	-	(897,928)	-	(1,848,352)

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

(d) Interest rate risk

Throughout the year, the Group may monitor and manage its interest rate exposure on future borrowings. The Group's main interest rate risk arises from cash at bank and interest bearing liabilities, which are held at a variable rates that expose the Group to cash flow interest rate risk.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)**(d) Interest rate risk (continued)**

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

Group	31 December 2013	31 December 2012
Cash and cash equivalents	2,840,290	7,718,527
- Interest rate	0% to 2.5%	0% to 2.8%
Interest bearing liabilities	183,657,080	168,144,624
- Interest rate	6.56% to 10%	6.4% to 8%

Sensitivity Analysis

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

	Year Ended 31 December 2013	Year Ended 31 December 2012
Cash and cash equivalents		
Increase of 100 basis points	(28,402)	(77,185)
Decrease of 100 basis points	28,402	77,185
Interest bearing liabilities		
Increase of 100 basis points	183,657	168,144
Decrease of 100 basis points	(183,657)	(168,144)

(e) Equity Price Risk

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

(f) Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability are set out in note 21(b).

Group	31 December 2013		31 December 2012	
	Level 1	Level 3	Level 1	Level 3
Available-for-sale financial assets	101,734	-	216,196	-
Financial liabilities at fair value through the profit and loss	-	-	-	1,514,000
Financial liabilities at fair value through the profit and loss	-	58,124,526	-	59,249,585

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial liabilities at fair value through the profit and loss 2013	Financial liabilities at fair value through the profit and loss 2012
Balance at 1 January	59,249,585	66,068,191
Additions: CB tranches issued	-	-
Valuation adjustments recognised in profit or loss	(1,125,059)	(6,818,606)
Balance at 31 December	58,124,526	59,249,585

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

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

30. ACCOUNTING JUDGEMENTS AND ESTIMATES**(a) Critical judgements***Going concern*

A key assumption underlying the preparation of the consolidated financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due, and to continue in operations without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the Group is a going concern as set out in note 2(e).

(b) Estimates and assumptions**(i) Ore reserves**

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

(ii) Exploration and evaluation assets

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

(iii) Provision for rehabilitation

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

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

(iv) Impairment of assets

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

Changes in these estimates and assumptions impact the recoverable amount of the asset or CGU, and accordingly could result in an adjustment to the carrying amount of that asset or CGU. Refer to note 13 for details.

(v) Share based payments

The fair value of employee share options is measured using Black & Scholes and Monte-Carlo simulation. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, the risk-free interest rate (based on government bonds) and probability applied to the non-vesting conditions (based on management's judgement formed in consideration of all the available facts and circumstances).

30. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)**(b) Estimates and assumptions****(v) Share based payments**

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Any different estimates and assumptions affecting the measurement inputs would have resulted in different grant date fair values, which would have changed equity settled share-based payments expense.

Subsequent changes to this estimate could have a significant effect on share based payment expense and the associated equity-settled payments reserve.

(vi) Valuation of Convertible Bonds

The fair value of the Convertible Bonds is determined by valuing the bond component based on discounted cash flows and using accepted option valuation models to value the issuer's right to convert. The fair value of the Convertible Bonds is determined by valuing the bond component based on discounted cash flows and using accepted option valuation models to value the combined impact of the holder's right to convert and the issuer's right to force conversion under certain hurdle conditions as set out in note 21(b).

31. DEED OF CROSS GUARANTEE

Pursuant to Class Order 98/1418, relief has been granted to Galaxy Lithium Australia Limited from the Corporations Act 2001 requirements for the preparation, audit and lodgement of a financial report. As a condition of the Class Order, Galaxy Resources Limited and Galaxy Lithium Australia Limited ("Closed Group") entered into a Deed of Cross Guarantee on 19 September 2011. The effect of this deed is that Galaxy Resources Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Galaxy Resources Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

A consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and the controlled entities which are party to the Deed, after eliminating all transactions between the parties to the Deed of Cross Guarantee, for the year ended 31 December 2013 is set out as follows:

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2013	Year ended 31 December 2012
	\$	\$
Revenue	-	16,272,984
Gain on sale of tenements	112,148	-
Profit on sale of intangibles	24,483,400	-
Production costs	(5,399,914)	(41,486,677)
Impairment loss on plant and equipment	(36,780,159)	(49,000,000)
Share based payments	(100,000)	(15,546,876)
Administration expenses	(9,183,403)	(14,291,998)
Loss on sale of assets	(56,641)	(11,583)
Depreciation and amortisation	(6,864,188)	(7,279,382)
Loss from operations	(33,788,757)	(111,343,532)
Finance income	130,209	8,791,341
Finance costs	(12,064,949)	(6,157,182)
Net finance costs	(11,934,740)	2,634,159
Loss before taxation	(45,723,497)	(108,709,373)
Income tax	1,346,740	-
Loss for the year	(44,376,957)	(108,709,373)

31. DEED OF CROSS GUARANTEE (CONTINUED)
Consolidated Balance Sheet

	31 December 2013	31 December 2012
	\$	\$
NON-CURRENT ASSETS		
Property, plant and equipment	508,437	44,432,512
Exploration and evaluation assets	5,285,899	4,823,458
Available-for-sale financial assets	85,000	180,000
Other receivables and prepayments	11,431,627	6,767,904
Investments in subsidiaries	215,223,703	163,132,623
TOTAL NON-CURRENT ASSETS	232,534,666	219,336,497
CURRENT ASSETS		
Other receivables and prepayments	492,518	1,138,500
Inventories	2,255,902	2,211,667
Cash and cash equivalents	2,121,297	5,653,819
TOTAL CURRENT ASSETS	4,869,717	9,003,986
TOTAL ASSETS	237,404,383	228,340,483
NON-CURRENT LIABILITIES		
Provisions	2,400,000	1,232,000
Interest bearing liabilities	-	-
TOTAL NON-CURRENT LIABILITIES	2,400,000	1,232,000
CURRENT LIABILITIES		
Trade and other payables	10,865,625	4,201,744
Provisions	29,068	347,785
Interest bearing liabilities	62,504,170	59,249,585
TOTAL CURRENT LIABILITIES	73,399,403	63,799,114
TOTAL LIABILITIES	75,799,403	65,031,114
NET ASSETS	161,604,980	163,309,369
CAPITAL AND RESERVES		
Share capital	448,460,633	407,170,372
Reserves	17,882,651	36,406,459
Accumulated Losses	(304,738,304)	(280,267,462)
TOTAL EQUITY	161,604,980	163,309,369

DIRECTORS' DECLARATION

For The Year Ended 31 December 2013

1. In the opinion of the Directors of Galaxy Resources Limited:
 - (a) the consolidated financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors Report set out on pages 31 to 79 are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the financial year 1 January 2013 to 31 December 2013; and
 - ii complying with Australian Accounting Standards 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.
2. there are reasonable grounds to believe that the Company and the group entities identified in note 31 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

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

Signed in accordance with a resolution of the Directors:

Dated at Perth, 30th day of April 2014.



A P Tse
Managing Director



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

Report on the financial report

We have audited the accompanying financial report of Galaxy Resources Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2013, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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



Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Material uncertainty regarding continuation as a going concern

Without modification to the opinion expressed above, attention is drawn to Note 2(e) in the financial report. The matters set forth in Note 2(e) indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Galaxy Resources Limited for the year ended 31 December 2013, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Trevor Hart
Partner

Perth

30 April 2014

ASX SHAREHOLDER INFORMATION

1. Share Holding at 17 April 2014

(a) Distribution of Shareholders

Share holding		Number of Holders Fully paid ordinary shares
1	- 1,000	2,936
1,001	- 5,000	2,785
5,001	- 10,000	1,621
10,001	- 100,000	3,526
100,001	- over	863
		11,731

(b) Unmarketable Parcels

There are 6,365 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
M&G Investment Management Limited	116,779,806
Deutsche Bank AG	87,409,760
The Vanguard Group	86,393,638

2. Option Holding at 17 April 2014

(a) Distribution of Optionholders

Option holding		Number of Holders Listed options expiring 31/12/2014
1	- 1,000	87
1,001	- 5,000	578
5,001	- 10,000	467
10,001	- 100,000	1,580
100,001	- over	495
		3,207

(b) Unmarketable Parcels

There are 2,050 optionholders who hold less than a marketable parcel.

3. Top Twenty Shareholders at 17 April 2014

Shareholder	Number of Shares	% Issued Capital
1. J P Morgan Nominees Australia Limited	110,962,993	10.80
2. HSBC Custody Nominees (Australia) Limited	91,834,641	8.94
3. DNU Nominees Pty Limited	83,148,090	8.10
4. Citicorp Nominees Pty Limited	54,465,487	5.30
5. Creat Resources Holdings Limited	37,584,912	3.66
6. National Nominees Limited	29,613,818	2.88
7. J P Morgan Nominees Australia Limited <Cash Income A/C>	24,542,860	2.39
8. Paul Cozzi	19,500,000	1.90
9. Bell Potter Nominees Limited <BB Nominees A/C>	18,379,713	1.79
10. Cape Bouvard Equities Pty Limited	12,727,272	1.24
11. Credit Risk Management Services Pty Limited	12,100,000	1.18
12. Brispot Nominees Pty Limited	11,461,397	1.12

GALAXY RESOURCES LIMITED
ANNUAL FINANCIAL REPORT DECEMBER 2013

13. Computershare Trust Company of Canada	11,311,757	1.10
14. Ademsa Pty Limited	7,552,120	0.74
15. HSBC Custody Nominees (Australia) Limited – GSCO ECA	7,116,085	0.69
16. BT Portfolio Services Limited	7,000,000	0.68
17. Colbern Fiduciary Nominees Pty Limited	6,486,348	0.63
18. HSBC Custody Nominees (Australia) Limited – <NT-Comnwlth Super Corp A/C>	5,876,042	0.57
19. NEFCO Nominees Pty Limited	5,871,283	0.57
20. Chay Dylan Granger	5,712,177	0.56
	563,246,995	54.84

4. Top Twenty Optionholders at 17 April 2014

Optionholder	Number of Options	% Issued Options
1. Pan Australian Nominees Pty Limited	55,470,051	8.38
2. Bell Potter Nominees Ltd <BB Nominees A/C>	42,533,859	6.43
3. HSBC Custody Nominees (Australia) Limited	41,732,599	6.31
4. J P Morgan Nominees Australia Limited	40,094,241	6.06
5. Merrill Lynch (Australia) Nominees Pty Limited	34,531,510	5.22
6. National Nominees Limited	29,057,599	4.39
7. Palir Pty Ltd (Gilbert S/F A/C)	16,500,000	2.49
8. J P Morgan Nominees Australia Limited <Cash Income A/C>	15,748,959	2.38
9. Citicorp Nominees Pty Limited	13,825,657	2.09
10. Excalibur Trading Pty Limited	12,474,356	1.88
11. BT Portfolio Services Limited	12,000,000	1.81
12. Colbern Fiduciary Nominees Pty Limited	9,729,522	1.47
13. Cape Bouvard Equities Pty Limited	9,545,454	1.44
14. Credit Risk Management Services Pty Limited	9,075,000	1.37
15. HSBC Custody Nominees (Australia) Limited – <NT-Comnwlth Super Corp A/C>	8,814,064	1.33
16. Paul Cozzi	7,500,000	1.13
17. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	6,829,398	1.03
18. Ademsa Pty Limited	6,190,000	0.94
19. Brispot Nominees Pty Limited	6,084,009	0.92
20. Chen Lu	5,320,000	0.80
	383,056,278	57.87

5. Distribution of Unlisted Options

Distribution	8 cent	45 cent	60 cent	90 cent	\$1.11	\$1.16
1 - 1,000						
1,001 - 5,000						
5,001 - 10,000						
10,001 - 100,000						119
100,001 - over	1	1	7	1	16	15
Total Holders	1	1	7	1	16	134
Total Units	25,000,000	750,000	3,600,000	800,000	4,800,000	16,700,000

6. Restricted Securities

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

7. On Market Buy-back

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

TENEMENT SCHEDULE

Project	Tenement	Notes (100% interest unless stated)
<u>Argentina</u>		
<u>Sal De Vida</u>	Various	96% (70% Interest upon satisfaction of JV conditions with Kores Consortium.)
<u>Australia</u>		
<u>Boxwood Hill</u>	E70/2493 E70/2513-E70/2514 E70/2547	
<u>Ponton</u>	E28/1317 E28/1830	
<u>Shoemaker</u>	E69/1869-1871	20% Interest with General Mining Corporation.
<u>Ravensthorpe</u>		
<u>Bakers Hill</u>	E74/295 E74/299 E74/415	
<u>Floater</u>	E74/400 P74/307-P74/308	
<u>Mt Cattlin</u>	L74/46 L74/48 M74/244	
<u>Sirdar</u>	E74/401 P74/309-P74/310	80% Interest with Traka Resources. 80% Interest with Traka Resources.
<u>West Kundip</u>	L74/47 M74/133 M74/238	
<u>Canada</u>		
<u>James Bay</u>	Various	