



GALAXY RESOURCES LIMITED

ABN 11 071 976 442

**ANNUAL REPORT
YEAR ENDED 31 DECEMBER 2015**

www.galaxylithium.com

CORPORATE DIRECTORY

BOARD OF DIRECTORS

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

CHIEF FINANCIAL OFFICER

Mr Rowen Colman

COMPANY SECRETARY

Mr Simon Robertson

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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AUSTRALIAN BUSINESS NUMBER

11 071 976 442

STOCK EXCHANGE LISTING

ASX Codes: GXY

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Dear Fellow Shareholder,

Since being appointed Chairman of Galaxy Resources Limited ("the Company") in November 2013, I am proud to say that the new management team that were appointed at the same time have successfully restructured the Company, bringing it back from the brink of insolvency, so that Galaxy now finds itself very uniquely positioned in a buoyant lithium market.

The journey that the Company has been on from 2013 has been long, arduous and at times, very challenging. The hard work and hard decisions taken over these years, with multiple rounds of debt restructuring, asset divestment and refinancing, culminated with the completion of the balance sheet restructuring at the end of 2015. Through the arrangement we entered into with General Mining, we have been able to reposition the Mt Cattlin Project in Western Australia, for a restart in production and have this year, already made significant progress with the announcement of offtake customers and the commencement of re-commissioning.

On our flagship Sal de Vida Project, work continues on the formal revisions and update of the definitive feasibility study, as well as assembling a world class owner's team and reactivation of the pilot program, all in preparation to advance Sal de Vida to the next stage of development.

In the lithium market, we continue to see very limited raw material and product availability, and that combined with strong growth in various end user lithium battery segments, particularly the transportation sector, has led to continued robustness in demand and pricing. The initiatives that we have undertaken on our various projects have not only resulted in imminent production and cash flow but also have now firmly placed Galaxy in a prime position to benefit from the overall uplift in the market that we expect to continue for the next few years. The Company is now uniquely placed as one of the only lithium focused companies in the world with world class hardrock and brine projects, both in production and development.

As Chairman of Galaxy, while very pleased with the progress we have made to date in restructuring the Company's balance sheet I am most pleased that we have been able to now position ourselves at the forefront of what I believe will be an exciting sustained period of growth in the lithium sector. The management team and I look forward to continuing to deliver on our strategy of becoming a leading global lithium producer, unlocking and creating further value for all of our shareholders.

Yours faithfully,



Martin Rowley
Chairman

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (the "Group") consisting of Galaxy Resources Limited (the "Company") and the entities it controlled at the end of, or during, the year ended 31 December 2015.

DIRECTORS AND COMPANY SECRETARY

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

Martin Rowley
Anthony Tse
Charles Whitfield
Jian-Nan (George) Zhang

The company secretary is Simon Robertson BBus MApp Fin. Mr Robertson currently holds the position of Company Secretary for a number of public listed companies and has experience in corporate finance, accounting and administration, capital raisings and ASX compliance and regulatory requirements.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group are:

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

During the year ended 31 December 2015 the Group completed the divestment of the Jiangsu lithium carbonate plant, executed an Acquisition and Development Agreement to sell 50% of the Mt Cattlin project and restart production and focused on continuing to unlock and realise value from its other principal assets Sal de Vida and James Bay.

DIVIDENDS

No dividends have been paid by the Company during the year ended 31 December 2015, nor have the Directors recommended that any dividends be paid.

OPERATING RESULTS FOR THE PERIOD

The Group's profit was \$54,862,456 after tax for the year ended 31 December 2015 (2014: loss \$54,703,347).

REVIEW OF OPERATIONS

Corporate

The Company announced the final Share Purchase Agreement on 2nd February 2015 for the 100% sale of the Jiangsu Plant to Sichuan Tianqi Lithium Industries for an enterprise value of US\$173.2 million, which would result in Galaxy de-consolidating US\$101.5 million of debt – this transaction was subsequently completed on 14th April 2015. On 9th February 2015, the Company also announced an initial term sheet with General Mining Corporation Limited ("GMM") relating to the potential partnership for the restart of operations at the Mount Cattlin mine. Following the required due diligence and development periods, a definitive agreement with GMM on the Mt Cattlin partnership was executed on 7th September 2015, whereby GMM is granted an option to earn in 50% equity interest in the project for \$25 million in commitment over 3 years.

On the financing side, after the completion of the Jiangsu divestment earlier in the year, Galaxy continued to work towards further strengthening its balance sheet and overall financial position. On the 12th November the Company announced that it entered into a definitive agreement with one of its convertible bondholders, Eternal Faith Holdings (a member of the Fengli Group) to buyback their convertible bonds with a face value of \$31.2 million for a consideration of \$27 million plus interest accrued and outstanding, resulting in a net \$4.2 million reduction of the Galaxy's corporate liabilities. Then on 17th November 2015, Galaxy announced that it had secured \$31 million by way of a secured debt facility with Orchard Capital Partners ("OCP") for the principal purpose of repaying the balance of the convertible bonds. This was a new 3-year facility, secured against the assets and the undertakings of the Company and carries a coupon of 10% per annum. The subsequent drawdown of this facility allowed for the full and final settlement of the outstanding balance of convertible bonds. At the same time as the drawdown of the facility, the previous bridge financiers converted \$4.45 million of historical and outstanding secured loans into Galaxy shares.

With all of the initiatives above completed, the Company had by the end of 2015 resulted in a transformation of its balance sheet, reducing from a peak of over \$207 million in net debt down to approximately \$20 million for the period, and completes the initial turnaround strategy outlined by the new board and management when it was appointed in the second half of 2013.

Mt Cattlin Operations

Following the announcement of the initial term sheet in relation to a new potential partnership on Mt Cattlin in February, GMM then proceeded to enter into its project due diligence period. This was completed in April and thereafter entered into a development period for the transaction up until July. On 9th June 2015, the Company announced revised terms with GMM, where the new structure contemplated the latter being appointed the sole operator and manager of the mine and offered the right to earn in a 50% equity interest in the Mt Cattlin project for \$25 million over the next 3 years. This consideration is to be satisfied by way of a minimum of \$7 million in capital expenditure to restart production plus three annual installments of \$6 million, payable quarterly in arrears from the commencement date of production.

A Mineral Resource and Ore Reserve Update on Mt Cattlin was announced in August and following the announcement on 7th September that Galaxy had executed definitive documentation with GMM, the transaction was approved at a GMM shareholders meeting on 9th September 2015. In October, as part of the Mt Cattlin partnership, GMM reported that it had commissioned and completed an Independent Review, conducted by Entech, on the open pit financial model for the Mt Cattlin project. It also announced a Sales and Distribution Agreement with Mitsubishi Corporation for 100% of the spodumene production from Mt Cattlin.

Test work on upgraded spodumene recovery and mica extraction circuits were completed with relevant amendments made to a revised flowsheet. Refurbishment works on the existing plant commenced in October with construction of additional new modules also started on the plant. Offtake discussions with potential spodumene and tantalum customers concluded with agreements executed on 8 March 2016 to supply 60,000 tonnes of lithium concentrate in 2016 at US\$ 600/t (FOB) and a further 120,000 tonnes in 2017. On 21 January 2016 GMM satisfied their \$7 million capital expenditure requirement under the agreement, which included purchase orders for plant equipment, fabrication, engineering and installation services. All long lead items required in the refurbishment were ordered during the last quarter of 2015 and overall planning and preparation work all continued to be on track for the target restart of production at Mt Cattlin by the end of Q1 2016.

Sal de Vida

In the first half of 2015, all relevant environmental permitting, certification and land management work continued, keeping the project in good standing with both Salta and Catamarca Provinces. Process development initiatives included test work relating to the planned industrial process, was carried out at the pilot plant, as well as collaboration discussions with Y-TEC, a research and development division of the leading oil and gas group YPF, which recently acquired certain patents from the National Investigation Institute of Argentina (CONICET) and has been developing certain lithium processing methods. Further reductions in overheads by 30% on an annualised basis were achieved during the period through additional management and organisational restructuring, as well as renegotiating certain vendor contracts and arrangements.

In September the new Fenix Gas Pipeline, which runs north-south from the Salar de Pocitos to a location in close vicinity to FMC's Hombre Muerto operations (which neighbours Sal de Vida), was commissioned and is now operational. The pipeline was designed and set up to feed natural gas to current and anticipated mining and industrial operations in the region, including the Sal de Vida Project. Preliminary planning has already commenced on a 20 km spur extension to Galaxy's future operations site. The availability of natural gas and main grid electricity is a considerable positive for the Sal de Vida location. During the period, the Sal de Vida Project also obtained a renewal to its DIA (Environmental Impact Declaration) and continues to maintain the project in good standing. The Project is fully permitted through to construction by both Salta and Catamarca Provinces.

The month of November 2015 saw Mauricio Macri elected as the new President of Argentina - he was formally inducted into office on 10 December 2015. Macri's first set of economic measures after his inauguration, included many positive steps which included the devaluation of the Argentinian Peso by 40% and allowing the US dollar to float freely; accelerating VAT refunds due to exporting companies; abolishing a legacy 5% withholding tax on the export of industrial products, such as lithium carbonate, lithium chloride and potassium chloride. The government has also begun relaxing restrictions on outbound capital flows, easing repatriation of dividend profits of multinational companies. There is also a recently announced plan to spend US\$16 billion on developing infrastructure in the northern region of the country, which will see major upgrades in the local network of roads and railways, and a substantial improvement in long distance transportation and logistics costs for businesses operating there. All of these positive changes are leading to a much-improved business and investment environment in the country. On the 29th February 2016 the Argentine government announced a settlement with the final "Hold Out" funds of the sovereign debt. This should clear the way to increased investor appetite for Argentine debt and project finance over the coming year.

James Bay

In addition to the partnership on Mt Cattlin, a strategic option was granted to GMM for a right to earn to a 50% interest in the James Bay Project, subject to a minimum requirement for GMM to invest US\$5 million over a three-year period, including a guaranteed spend of US\$2.5 million within the first two years.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The state of affairs of the Company are as follows:

- On 14 April 2015 Galaxy announced that all cash consideration had been received from Sichuan Tianqi Lithium Industries Inc ("Tianqi") for the completion of the Jiangsu Lithium Carbonate Plant ("Jiangsu Plant") divestment. Final adjustments for shared running costs from 1 February 2015 to settlement remain outstanding.
- On 4 September 2015 Galaxy executed an Acquisition & Development Agreement Mt Cattlin Project ("MTC Agreement") with GMM. Terms include GMM acquiring 50% interest in Mt Cattlin for \$25 million which includes all the tenements, plant and equipment and consumables. Major milestones under the MTC Agreement include GMM achieving CapEx commitments on the Mt Cattlin plant of \$7 million by 31 December 2015 and starting production by 31 March 2016, at which time the first 14% equity transfer will be completed. Additional equity will be transferred as quarterly repayments of \$1.5 million are made by GMM over the following three years.

EVENTS SUBSEQUENT TO REPORTING DATE

- On 21 January 2016 the Company announced that GMM had supplied the CapEx commitment schedule of \$7 million for Mt Cattlin plant as required by the MTC Agreement. Production was also on schedule to restart by 31 March 2016.
- On 8 March 2016 the Company announced that Galaxy and GMM had executed binding Lithium Concentrate Agreements with two Chinese customers for the sale of lithium concentrate from MTC. A summary of the agreements is as follows:
 - 60,000 tonnes of lithium concentrate sold for 2016 delivery at US\$ 600/t (FOB).
 - Prepayment of 50% of total 2016 order value (US\$ 18 million) payable as cash advance prior to 31 March 2016.
 - Commitment to purchase 120,000 tonnes of lithium concentrate in 2017 subject to price finalisation in Q4 2016.

Other than the matters discussed above, in the interval between the end of the financial year and the date of this report there has not arisen 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 intend to continue to seek ways of unlocking and realising value from the existing assets of Sal De Vida and James Bay and to seek new investment opportunities in the resources sector. For further information, refer to the Operational Review within the Annual Report.

DIRECTORS' REPORT

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity holds various environmental licences and authorities, issued under Australian law, to regulate its mining, exploration and chemicals activities in Australia. 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.

INFORMATION ON DIRECTORS

MARTIN 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\$9 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: 14,913,423 fully paid ordinary shares, 8,000,000 share appreciation rights and nil options.

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

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

ANTHONY 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 over 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. 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 is also 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: 23,518,644 fully paid ordinary shares, 10,000,000 share appreciation rights and 1,000,000 options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

CHARLES WHITFIELD

Executive Director

Mr Whitfield was an Executive Director from 13 October 2010 until 30 April 2013. He was reappointed on 28 November 2013 with responsibilities for corporate finance, merger and acquisition activities and strategy. He has been a director of Drumrock Capital, a turnaround specialist, since March 2008 during which time he assisted several early stage and distressed resource and technology companies. He was formerly a managing director with Citigroup Asia. Prior to this, he worked for Deutsche Bank Group, where he was head of the Strategic Equity Transaction Group for Asia Pacific.

Mr Whitfield received his Masters in Business Administration (Finance and Strategy) 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: 22,658,644 fully paid ordinary shares, 8,000,000 share appreciation rights and 1,000,000 options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

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. He was previously Managing Director of Winly Trade & Investment in China. Appointed as a Director on 28 November 2013.

Special Responsibilities: Nil.

Directors Interests: 1,559,322 fully paid ordinary shares, 500,000 share appreciation rights and Nil options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

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 and Risk Management Committee Meetings		Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Martin Rowley	5	5	2	2	1	1
Anthony Tse	5	5	-	-	-	-
Charles Whitfield	5	5	2	2	1	1
Jian Zhang	5	4 ⁽¹⁾	2	2	1	1

1. Mr Zhang did not attend a meeting due to agenda items conflicting with his position as a representative of lender to the Company.

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
- E Additional disclosures relating to key management personnel

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 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 segments' performance
- the Group's performance including 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 periodic 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 fringe benefits tax charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Performance linked compensation

Shareholders approved the establishment of the Galaxy Resources Limited Long Term Incentive Plan ("LTIP") on 29 May 2015. The purpose of the LTIP is to reward employees, contractors, consultants and Directors of the Company for successful management and development of the Company, assist in retention and motivation of employees and Directors and provide incentive to employees and Directors to grow shareholder value.

Consequences of performance on shareholder wealth

The Remuneration and Nomination Committee takes into account the performance of the Group over a number of years when recommending the overall level of key management personnel compensation

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.

Effective 1 May 2015 the Chairperson receives USD \$120,000 in fees per annum. The other Non-Executive Director receives \$50,000 per annum.

Directors' fees cover all main board activities and memberships of committees.

DIRECTORS' REPORT

B. Details of remuneration

	2015 \$	2014 \$
Total remuneration received, or due and receivable, by key management personnel of the Group	2,863,157	3,126,881

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 as at 31 December 2015 are the following:

- Martin Rowley (Non-Executive Chairman)
- Anthony Tse (Managing Director)
- Charles Whitfield (Executive Director)
- Jian-Nan Zhang (Non-Executive Director)
- Rowen Colman (Chief Financial Officer)

Remuneration for the Year Ending 31 December 2015

Name	Short-term benefits		Post-employment benefits	Share-based payments		Total Remuneration
	Cash salary & fees	Other	Superannuation	Shares	SARS	
	\$	\$	\$	\$	\$	\$
Executives						
A P Tse	383,709	-	-	410,000	278,500	1,072,209
C B F Whitfield	326,489	-	-	369,000	222,800	918,289
R J Colman	88,657	-	-	7,800	6,075	102,532
Non-Executive Directors						
M R Rowley	134,902	-	-	328,000	222,800	685,702
J Zhang	45,662	-	4,338	20,500	13,925	84,425
Total	979,419	-	4,338	1,135,300	744,100	2,863,157

Remuneration for the Year Ending 31 December 2014

Name	Short-term benefits		Post-employment benefits	Share-based payments	Total Remuneration
	Cash salary & fees	Other	Superannuation	Shares	
	\$	\$	\$	\$	\$
Executives					
A P Tse	260,306	-	-	715,000	975,306
C B F Whitfield	259,971	-	-	715,000	974,971
R J Colman (Appointed 13 October 2014)	18,426	-	-	-	18,426
S L Robertson (Appointed 20 October 2014) ⁽³⁾	11,304	-	-	-	11,304
J A Sobolewski (Resigned 2 February 2014)	33,899	-	2,610	-	36,509
A L Meloncelli (Resigned 28 November 2014)	235,798	⁽¹⁾ 71,154	21,330	-	328,282
Non-Executive Directors					
M R Rowley	-	-	-	⁽²⁾ 683,750	683,750
J Zhang	4,583	-	-	62,500	67,083
K C Kwan (Resigned 30 June 2014)	-	-	-	31,250	31,250
Total	824,287	71,154	23,940	2,207,500	3,126,881

1. Termination payment made in accordance with employment contract and applicable legislation
2. 10,000,000 shares approved for issue to Mr Rowley were issued to unrelated nominees
3. Ceased as KMP on 1 January 2015

DIRECTORS' REPORT

C. Service Agreements

ANTHONY 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 receives fees of USD \$300,000 per annum paid monthly. This was reviewed by the Board effective 1 May 2015. Remuneration is based on market factors.

Termination

Termination of the service agreement can occur with immediate effect by notification from either party

CHARLES 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 USD \$250,000 per annum are paid monthly. This was reviewed by the Board effective 1 May 2015. Remuneration is based on market factors.

Termination

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

D. Share-based compensation

i. Shares issued

On 29 May 2015 the shareholders approved the issue of 27,500,000 shares to directors (or their nominee(s)) and up to 12,900,000 to management (or their nominee(s)) in recognition of their efforts towards the successful completion of the Jiangsu divestment. Details of shares issued to key management personnel (or their nominee(s)) is as follows:

Shares	Date shares granted	Number of shares issued	Issue price \$	Value of shares issued \$
Directors				
Martin Rowley	29 May 2015	8,000,000	0.041	328,000
Anthony Tse	29 May 2015	10,000,000	0.041	410,000
Charles Whitfield	29 May 2015	9,000,000	0.041	369,000
Jian Zhang	29 May 2015	500,000	0.041	20,500
Other Key Management Personnel				
Rowen Colman	1 June 2015	200,000	0.039	7,800
Total shares issued		27,700,000		1,135,300

The issue price was determined as the market price on the date the shares were granted.

ii. Options issued

No options were issued to key management personnel during the financial year ended 31 December 2015 (2014: Nil).

iii. Share appreciation rights issued

On 29 May 2015 the shareholders approved the issue of 26,500,000 share appreciation rights ("SARS") to Directors under the Company LTIP. On 19 June 2015 the board approved the issue of 10,600,000 SARS to employees. Details of SARS issued to key management personnel is as follows:

Share appreciation rights	Date SARS granted	Number of SARS issued	Exercise price \$	Value of SARS issued \$
Directors				
Martin Rowley	29 May 2015	8,000,000	0.03	222,800
Anthony Tse	29 May 2015	10,000,000	0.03	278,500
Charles Whitfield	29 May 2015	8,000,000	0.03	222,800
Jian Zhang	29 May 2015	500,000	0.03	13,925
Other Key Management Personnel				
Rowen Colman	19 June 2015	300,000	0.03	6,075
Total SARS issued		26,800,000		744,100

DIRECTORS' REPORT

E. Additional disclosures relating to key management personnel

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

Shares	Balance at 1 January 2015	Granted as remuneration	Exercise of options	Net change other	Balance at 31 December 2015
Directors					
Martin Rowley	5,913,423	8,000,000	-	1,000,000	14,913,423
Anthony Tse	12,118,644	10,000,000	-	1,400,000	23,518,644
Charles Whitfield	12,118,644	9,000,000	-	1,540,000	22,658,644
Jian Zhang	1,059,322	500,000	-	-	1,559,322
Other Key Management Personnel					
Rowen Colman	-	200,000	-	-	200,000
Total shares	31,210,033	27,700,000	-	3,940,000	62,850,033

Unlisted options	Balance at 1 January 2015	Granted as remuneration	Options expired	Net change other	Balance as 31 December 2015	Vested and exercisable at 31 December 2015
Directors						
Anthony Tse	1,000,000	-	-	-	⁽¹⁾ 1,000,000	-
Charles Whitfield	1,000,000	-	-	-	⁽¹⁾ 1,000,000	-
Total options	2,000,000	-	-	-	2,000,000	-

1. Class K1 options with conditions as detailed in note 22(b)(iv)

Share appreciation rights	Balance at 1 January 2015	Granted as remuneration	SARS expired	Net change other	Balance as 31 December 2015	Vested and exercisable at 31 December 2015
Directors						
Martin Rowley	-	8,000,000	-	-	8,000,000	4,000,000
Anthony Tse	-	10,000,000	-	-	10,000,000	5,000,000
Charles Whitfield	-	8,000,000	-	-	8,000,000	4,000,000
Jian Zhang	-	500,000	-	-	500,000	250,000
Other Key Management Personnel						
Rowen Colman	-	300,000	-	-	300,000	150,000
Total SARS	-	26,800,000	-	-	26,800,000	13,400,000

INSURANCE OF OFFICERS

During the year, Galaxy Resources Limited incurred premiums of \$45,390 (2014: \$47,500) 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.

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 2015 or at the date of this report.

DIRECTORS' REPORT

NON-AUDIT SERVICES

During the year PricewaterhouseCoopers ("PWC"), 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 PWC can be found at note 26.

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 9 and forms part of the directors' report for the year ended 31 December 2015.

Signed in accordance with a resolution of the Directors

Dated at Perth this 23rd day of March 2016.

On behalf of the Directors



A P Tse
Managing Director



Auditor's Independence Declaration

As lead auditor for the audit of Galaxy Resources Limited for the year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Galaxy Resources Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Nick Henry'.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
23 March 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 \$	2014 \$
Revenue			
Finance income	5	4,276,896	34,969
Other income	5	50,000	185,401
Expenses			
Operating costs		(110,309)	(309,954)
Other expenses from ordinary activities			
Administration costs		(4,486,510)	(4,012,700)
Employment costs	6	(4,317,211)	(4,394,200)
Depreciation		(123,428)	(152,462)
Finance costs	6	(9,611,381)	(10,430,549)
Foreign exchange losses		(939,486)	(2,994,253)
Impairment of property, plant and equipment	14	-	(26,724)
Impairment of exploration and evaluation	15	(319,303)	(6,531,501)
Provision for rehabilitation	18	-	(581,251)
Loss before taxation		(15,580,732)	(29,213,224)
Income tax	7	-	-
Loss from continuing operations		(15,580,732)	(29,213,224)
Profit (loss) from discontinued operation	10	70,443,188	(25,490,123)
Profit (loss) for the period		54,862,456	(54,703,347)
Profit (loss) attributable to:			
Owners of Galaxy Resources Limited		55,229,920	(54,669,746)
Non-controlling interests		(367,464)	(33,601)
		54,862,456	(54,703,347)
Other comprehensive income (loss) for the period			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences – foreign operations		(5,437,418)	(1,692,470)
Reclassification of cumulative foreign currency gain on disposal of subsidiary	10	(8,320,093)	-
Net changes in available-for-sale financial assets	21	1,459,715	-
Other comprehensive loss for the period		(12,297,796)	(1,692,470)
Total comprehensive income (loss) for the period		42,564,660	(56,395,817)
Total comprehensive income (loss) for the period attributable to:			
Owners of Galaxy Resources Limited		43,274,754	(56,262,673)
Non-controlling interests		(710,094)	(133,144)
		42,564,660	(56,395,817)
Total comprehensive profit (loss) for the period attributable to owners of Galaxy Resources Limited arises from:			
Continuing operations		(24,487,479)	(29,087,628)
Discontinued operations		67,762,233	(27,175,045)
		43,274,754	(56,262,673)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company			
Basic and diluted loss per share (cents per share)	8	(1.38)	(2.80)
Earnings per share for profit (loss) attributable to the ordinary equity holders of the company			
Basic profit (loss) per share (cents per share)	8	5.01	(5.24)
Diluted profit (loss) per share (cents per share)	8	4.85	(5.24)

The above Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015 \$	2014 \$
CURRENT ASSETS			
Cash and cash equivalents	11	4,761,163	13,389,040
Other receivables and prepayments	12	6,617,758	669,489
Inventories	13	1,064,592	1,095,870
		12,443,513	15,154,399
Assets classified as held for sale	10	-	187,231,119
TOTAL CURRENT ASSETS		12,443,513	202,385,518
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,684,822	1,908,649
Exploration and evaluation assets	15	124,005,515	130,995,125
Available-for-sale financial assets	16	1,548,555	39,971
TOTAL NON-CURRENT ASSETS		127,238,892	132,943,745
TOTAL ASSETS		139,682,405	335,329,263
CURRENT LIABILITIES			
Trade and other payables	17	1,361,246	5,161,963
Deposit for Jiangsu transaction		-	14,958,313
Provisions	18	52,351	651,456
Interest bearing liabilities	19	-	101,232,792
		1,413,597	122,004,524
Liabilities directly associated with assets classified as held for sale	10	-	155,804,260
TOTAL CURRENT LIABILITIES		1,413,597	277,808,784
NON-CURRENT LIABILITIES			
Provisions	18	7,173,671	7,455,255
Interest bearing liabilities	19	28,293,359	-
TOTAL NON-CURRENT LIABILITIES		35,467,030	7,455,255
TOTAL LIABILITIES		36,880,627	285,264,039
NET ASSETS		102,801,778	50,065,224
EQUITY			
Contributed equity	21	459,217,804	450,692,932
Reserves	21	(6,632,796)	11,986,098
Accumulated losses		(353,963,638)	(417,504,308)
Capital and reserves attributable to owners of Galaxy Resources Limited		98,621,370	45,174,722
Non-controlling interests		4,180,408	4,890,502
TOTAL EQUITY		102,801,778	50,065,224

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Contributed Equity \$ 21(a)	Reserves \$ 21(b)	Accumulated losses \$	Total \$	Non- controlling interest \$	Total equity \$
Balance at 1 January 2014	448,460,634	14,465,358	(363,834,665)	99,091,327	5,023,646	104,114,973
Loss for the year	-	-	(54,669,746)	(54,669,746)	(33,601)	(54,703,347)
Other comprehensive loss for the year	-	(1,592,927)	-	(1,592,927)	(99,543)	(1,692,470)
Total comprehensive loss	-	(1,592,927)	(54,669,746)	(56,262,673)	(133,144)	(56,395,817)
Issue of shares, net of transaction costs	24,798	-	-	24,798	-	24,798
Transfer of reserve upon forfeit of options	-	(1,000,103)	1,000,103	-	-	-
Share-based payment transactions	2,207,500	113,770	-	2,321,270	-	2,321,270
Balance at 31 December 2014	450,692,932	11,986,098	(417,504,308)	45,174,722	4,890,502	50,065,224
Profit (loss) for the year	-	-	55,229,920	55,229,920	(367,464)	54,862,456
Other comprehensive loss for the year	-	(11,955,166)	-	(11,955,166)	(342,630)	(12,297,796)
Total comprehensive income (loss)	-	(11,955,166)	55,229,920	43,274,754	(710,094)	42,564,660
Transaction costs arising on share issue	(23,298)	-	-	(23,298)	-	(23,298)
Transfer of reserve upon forfeit of options	-	(8,310,750)	8,310,750	-	-	-
Share-based payment transactions	8,548,170	1,647,022	-	10,195,192	-	10,195,192
Balance at 31 December 2015	459,217,804	(6,632,796)	(353,963,638)	98,621,370	4,180,408	102,801,778

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 \$	2014 \$
Operating activities			
Receipts from customers		2,169,909	25,634,458
Receipts from Australian Taxation Office		185,401	-
Payments to suppliers, contractors and employees		(9,549,515)	(34,620,933)
Net cash outflow operating activities	32	<u>(7,194,205)</u>	<u>(8,986,475)</u>
Investing activities			
Interest received		76,896	34,969
Acquisition of property, plant and equipment		(19,286)	(2,122,278)
Payment for shares in listed company		(50,000)	-
Proceeds from sale of assets		46,981,394	1,000
Deposit received for sale of assets		-	13,029,000
Payments for exploration and evaluation assets		(1,845,461)	(4,792,657)
Net cash inflow from investing activities		<u>45,143,543</u>	<u>6,150,034</u>
Financing activities			
Proceeds from issue of shares, net of transaction costs		(23,298)	24,798
Bank charges, withholding tax and interest paid		(13,028,675)	(16,434,396)
Proceeds from borrowings		33,227,548	75,624,949
Repayments of borrowings		(12,941,566)	(49,839,105)
Repayments of convertible bonds		(57,000,000)	-
Net cash (outflow) inflow from financing activities		<u>(49,765,991)</u>	<u>9,376,246</u>
Net (decrease) increase in cash and cash equivalents		<u>(11,816,653)</u>	<u>6,539,805</u>
Cash and cash equivalents at the beginning of the year		13,580,514	2,840,292
Effect of foreign exchange rate changes		2,997,302	4,200,417
Cash and cash equivalents at the end of the year		<u>4,761,163</u>	<u>13,580,514</u>
Represented by:			
Cash held for sale in disposal group	10	-	191,474
Cash and cash equivalents from continuing operations	11	<u>4,761,163</u>	<u>13,389,040</u>
Non-cash financing and investing activities	33		

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. REPORTING ENTITY

Galaxy Resources Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Suite 8, 18 Kearns Crescent, Ardross, Australia. The consolidated financial statements of the Company for the year ended 31 December 2015 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 23 March 2016.

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.
- 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 and presentation 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 29.

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) Principles of consolidation

These financial statements incorporate the accounts of Galaxy Resources Limited and its subsidiaries. All intercompany balances, transactions, income and expenses and profits or losses have been eliminated on consolidation.

Subsidiaries are consolidated where the Company has control of a subsidiary. Control is obtained where the Company possesses power over the subsidiary, has exposure of rights to variable returns from its involvement with the subsidiary and has the ability to use its power over the subsidiary to affect its returns. For non-wholly owned subsidiaries, the net assets attributable to outside equity shareholders are presented as "non-controlling interest" in the equity section of the consolidated statement of financial position. Profit for the year that is attributable to non-controlling interests is calculated based on the ownership of the minority shareholders in the subsidiary. Entities are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases.

A list of controlled entities is detailed in note 4 to the financial statements.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting whereby the purchase consideration is allocated to the identifiable assets and liabilities and contingent liabilities assumed at the date of acquisition. Provisional fair values allocated at a reporting date are finalised within twelve months of the acquisition date with retroactive restatement to the acquisition date as required. Incremental costs related to the acquisition costs are expensed as incurred.

If the transaction does not meet the definition of a business combination the transaction is recorded as an acquisition of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES

b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits at fair value on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially at fair value 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: 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 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 thereafter 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.

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 resource 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.

3. SIGNIFICANT ACCOUNTING POLICIES

c) Exploration and evaluation assets

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:
 - 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

d) Property, plant and equipment

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 shorter of their estimated useful lives and the remaining life of mine. The estimated life of mine is based upon geological reserves 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.

e) Impairment of assets

Non-derivative financial assets

A financial asset not classified as 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.

3. SIGNIFICANT ACCOUNTING POLICIES

e) Impairment of assets

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 of disposal. 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 CGUs.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

i) Provisions

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.

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 and other related financing costs.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

n) Taxes

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 statement of financial position.

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.

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) Contributed equity

Ordinary shares are classified as contributed equity. 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 contributed equity. Subsequent changes in fair value of such equity instrument subsequently are not recognised in the consolidated financial statements.

q) Earnings per share

Basic and diluted profit or loss per share is determined by dividing the profit or loss after income tax attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Basic and diluted profit or loss per share is also determined separately for continuing and discontinued operations. The weighted average number of shares used in calculation of diluted earnings per share is adjusted for the effect of options and share appreciation rights except if anti-dilutive.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

s) Accounting standards and interpretations issued but not yet adopted

A number of new standards, interpretations and amendments to existing standards are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these financial statements. This listing of standards, interpretations and amendments issued includes those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied in the future. The Company intends to adopt these standards when they become effective.

1. AASB 9, *Financial Instruments*, addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The Company is currently assessing the impact of adopting AASB 9 on its consolidated financial statements.
2. AASB 15, *Revenue from Contracts with Customers*, establishes the principles that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 January 2018), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The adoption of this standard will not have a material impact on the Company.
3. AASB 16, *Leases* provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The standard also contains new disclosure requirements for lessees. The new standard is effective 1 January 2019. Earlier application is permitted provided AASB 15 Revenue from Contracts with Customers is also adopted. The Company has not yet assessed impact of this new standard.

t) Discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of profit or loss and other comprehensive income.

u) Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Company. Dividends received from associates are recognized in the parent entity's profit or loss when its right to receive the dividend is established.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

4. INTERESTS IN OTHER ENTITIES

Investments in subsidiaries

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	Interest as at 31 December		Principal activity
			2015	2014	
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	Nil	100%	Investment holding company
Galaxy Resources International Limited	Hong Kong	Limited company	100%	100%	Investment holding company
Galaxy Lithium (Jiangsu) Co., Limited	The PRC	Limited company	Nil	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	96%	96%	Exploration and Development of Sal de Vida Project

5. REVENUE

The group derives the following types of revenue:

	2015 \$	2014 \$
<i>Finance income</i>		
Gain on extinguishment of convertible bonds (note 19)	4,200,000	-
Interest income on cash assets	76,896	34,969
Total revenue from continuing operations	4,276,896	34,969
<i>Other income</i>		
Government R&D rebate	-	185,401
Mt Cattlin due diligence fee	50,000	-
Total other income	50,000	185,401

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

6. EXPENSES

	2015 \$	2014 \$
(a) Finance costs		
Interest expense on financial liabilities	7,307,267	8,554,959
Impairment loss on available-for-sale financial assets (note 16)	-	60,000
Bank charges	22,434	110,398
Convertible bonds transaction costs	300	29,878
Withholding tax on overseas interest payments	1,050,118	839,182
Share based payments	527,306	213,770
Transaction costs on loans	703,956	622,362
Finance costs attributable to continued operations	9,611,381	10,430,549
Net finance costs attributable to discontinued operations	2,231,849	8,359,267
(b) Employment costs		
Contributions to defined contribution retirement plans	81,688	120,506
Share-based payments	2,445,676	2,107,500
Salaries, wages and other benefits	1,789,847	2,166,194
Employment costs attributable to continued operations	4,317,211	4,394,200
(c) Other items		
Operating lease charges for property rental	219,760	440,034

7. INCOME TAX

- (a) A reconciliation of income tax expense (benefit) applicable to accounting profit (loss) 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 2015 and 31 December 2014 is as follows:

	2015 \$	2014 \$
Accounting loss before tax from continuing operations	(15,580,732)	(29,213,224)
Profit (loss) before tax from discontinued operations	70,443,188	(25,490,123)
Accounting profit (loss) before income tax	54,862,456	(54,703,347)
At the statutory income tax rate of 30%	(16,458,737)	16,411,004
Non-deductible expenses	(5,592,537)	(1,894,986)
Tax effect on temporary differences	6,754,431	2,136,831
Tax losses not brought to account as a deferred tax asset	(7,534,886)	(16,708,469)
Non-assessable income	22,831,729	55,620
Income tax benefit	-	-

- (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 2015 and 2014.
- (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 2015 and 2014.

Tax Consolidation

The Company and its 100% owned controlled Australian entities have formed a tax consolidated group. Members of the tax consolidated group have entered into a tax sharing arrangement in order to allocate income tax expense to the Australian 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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

7. INCOME TAX

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$
CONSOLIDATED						
Inventories	(328,251)	(328,251)	-	-	(328,251)	(328,251)
Property, plant and equipment	(19,083,883)	(22,737,670)	-	-	(19,083,883)	(22,737,670)
Investments in subsidiaries and available for sale financial assets	-	(274,500)	-	-	-	(274,500)
Exploration, evaluation and development expenditure	-	-	1,100,748	1,463,872	1,100,748	1,463,872
Provisions	(919,110)	(1,220,923)	-	-	(919,110)	(1,220,923)
Other	(558,281)	(926,912)	749	7,100	(557,532)	(919,812)
Borrowing costs	(70,147)	(146,100)	-	-	(70,147)	(146,100)
Unrealised foreign exchange losses (gains)	-	(1,202,391)	1,475,783	-	1,475,783	(1,202,391)
DTA not taken to account	18,382,392	25,365,775	-	-	18,382,392	25,365,775
Tax (assets) liabilities	(2,577,280)	(1,470,972)	2,577,280	1,470,972	-	-
Set off of tax	2,577,280	1,470,972	(2,577,280)	(1,470,972)	-	-
Net tax (assets) liabilities	-	-	-	-	-	-

(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:

	2015	2014
	\$	\$
Transaction costs for issue of shares	-	-
Other deductible temporary differences	18,382,392	25,365,775
Unused tax losses	214,605,527	189,364,324
	232,987,919	214,730,099

8. EARNINGS PER SHARE

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

	2015	2014
Basic profit (loss) per share (cents)	5.01	(5.24)
Diluted profit (loss) per share (cents)	4.85	(5.24)
Profit (loss) attributable to the ordinary shareholders of the Company	55,229,920	(54,669,746)
Basic and diluted loss per share (cents) from continuing operations	(1.38)	(2.80)
Loss attributable to the ordinary shareholders of the Company from continuing operations	(15,213,268)	(29,213,224)
Weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	1,103,201,993	1,044,201,979
Effect of share options	18,835,616	-
Effect of share appreciation rights	15,672,123	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,137,709,732	1,044,201,979

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. SEGMENTS INFORMATION

(a) Description of segments

During the year the Group has managed its businesses by geographic location, which resulted in three operating and reportable segments which consist of the Australian operation, Argentina operation and Canada 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 subsequent to the restructuring of the Group in light of the disposal of the former geographic and reportable segment containing the Group's China operation.

- Australia operation includes the development and operation of the Mt Cattlin spodumene mine and exploration for minerals.
- Argentina operation includes the development of the Sal de Vida project and exploration for minerals.
- Canada operation includes the development of the James Bay project and exploration for minerals.

As noted above the China segment was classified as held for sale and information about this discontinued segment is provided in note 10.

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 basis:

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

(b) Reportable segments

	Corporate		Australia		Argentina		Canada		Total	
	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$
Finance income	4,276,896	34,969	-	-	-	-	-	-	4,276,896	34,969
Other income	-	185,401	50,000	-	-	-	-	-	50,000	185,401
Operating costs and provisions for inventory and onerous contracts	-	-	(110,309)	(309,954)	-	-	-	-	(110,309)	(309,954)
Other expenses from ordinary activities	(8,242,839)	(10,696,908)	(1,110,896)	(2,696,526)	(832,203)	345,055	-	(5,609,743)	(10,185,938)	(18,658,122)
Finance costs	(7,782,709)	(8,125,802)	(1,819,802)	(2,302,973)	(7,817)	-	(1,053)	(1,774)	(9,611,381)	(10,430,549)
Reportable segment profit (loss) before income tax	(11,748,652)	(18,637,309)	(2,991,007)	(5,309,453)	(840,020)	345,055	(1,053)	(5,611,517)	(15,580,732)	(29,213,224)
Reportable segment interest bearing liabilities	28,293,359	64,450,055	-	36,782,737	-	-	-	-	28,293,359	101,232,792
Other reportable liabilities	1,013,288	3,551,237	3,159,923	19,981,767	231,628	231,207	4,182,429	4,462,777	8,587,268	28,226,988
Reportable segment assets	7,974,171	2,083,688	4,850,527	4,917,859	118,642,340	125,670,800	1,905,649	1,996,786	133,372,687	134,669,133
Additions to non-current segment assets during the period	18,986	1,732	253,659	515,430	1,901,915	4,098,279	18,904	92,684	2,193,464	4,708,125

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

Inter-segment revenue for the year ended 31 December 2015 is \$Nil (2014: \$Nil). The reconciliation between reportable segment assets and the Group's consolidated total assets as at the end of the financial year is as follows:

	2015 \$	2014 \$
Assets		
Total assets for reportable segments	133,372,687	134,669,133
Unallocated:		
Cash and cash equivalents	4,761,163	13,389,040
Available-for-sale financial assets	1,548,555	39,971
Assets classified as held for sale	-	187,231,119
Consolidated total assets	139,682,405	335,329,263
Liabilities		
Total liabilities for reportable segments	36,880,627	129,459,780
Unallocated:		
Liabilities classified as held for sale	-	155,804,260
Consolidated total liabilities	36,880,627	285,264,040

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. SEGMENT INFORMATION

The reconciliation between reportable segment profit (loss) and the Group's consolidated profit (loss) for the year is as follows:

	2015 \$	2014 \$
Profit or loss		
Loss from continuing operations	(15,580,732)	(29,213,224)
Profit (loss) from discontinued operations	<u>70,443,188</u>	<u>(25,490,123)</u>
	54,862,456	(54,703,347)
Elimination of inter segment transactions	-	-
Consolidated profit (loss) before tax	<u>54,862,456</u>	<u>(54,703,347)</u>

10. DISCONTINUED OPERATIONS

(a) Description

On 30 April 2014 the Company announced a binding Share Purchase Agreement ("SPA") with Sichuan Tianqi Lithium Industries ("Tianqi") for the sale of Galaxy Lithium International Limited ("GLIL"), the entity which holds the Jiangsu Lithium Carbonate plant. The SPA included an enterprise value of US\$230 million (A\$249 million), with Tianqi assuming US\$108 million (A\$117 million) of Chinese bank debt at Galaxy Jiangsu and a cash component of US\$122 million (A\$132 million), before any working capital adjustments for the balance. On 13 May 2014 the shareholders of Tianqi approved the payment of US\$12.2 million (A\$13 million) representing 10% of the cash component by way of a deposit for the purchase. The deposit was received on 20 May 2014. On 20 June 2014, at an EGM, Galaxy shareholders voted in support of the sale transaction.

On 2 February 2015 the Company announced revised terms of the SPA for the GLIL Disposal. The revised enterprise value was US\$173.2 million (A\$227 million) comprising cash consideration of US\$71.7 million (A\$94 million) and assumption of the Chinese bank debt. On 10 March 2015 Tianqi shareholders approved the revised SPA and then on 17 March 2015 Galaxy shareholders also approved the revised transaction.

On 14 April 2015 all cash consideration for the sale was received. In accordance with the amended SPA, Tianqi was responsible for 50% of the Jiangsu plant running costs from February to the completion of the sale. Galaxy has tried unsuccessfully to negotiate the final adjustment amount with Tianqi and has now commenced legal proceedings in the High Court of Hong Kong against Tianqi HK Co., Limited for payment of the sum of \$US2,108,910 (A\$2.9 million) plus legal costs and interest. On 4 February 2016, Tianqi HK lodged a defence and counterclaim denying the claim made against it and seeking payment of the sum of RMB18,766,353 (A\$3.97 million) on account of alleged breaches of warranties arising out of the same transaction, plus legal costs and interest. Any financial settlement of these claims is likely to be for a sum less than the full claims. Given the status and similar quantum of these disputed transactions the Company has not provided a receivable or payable respectively for these items in the financial statements at 31 December 2015.

(b) Financial performance and cash flow information

	2015 \$	2014 \$
Revenue	172,591	8,804,119
Expenses	<u>(5,786,549)</u>	<u>(34,294,242)</u>
Loss before income tax	(5,613,959)	(25,490,123)
Income tax expense	-	-
Loss after income tax of discontinued operation	(5,613,959)	(25,490,123)
Gain on sale of the subsidiary after income tax (see (c) below)	<u>76,057,147</u>	<u>-</u>
Profit (loss) from discontinued operation	<u>70,443,188</u>	<u>(25,490,123)</u>
Net cash outflow from operating activities	(2,372,720)	(1,555,712)
Net cash inflow (outflow) from investing	⁽¹⁾ 46,946,553	(2,131,000)
Net cash outflow from financing activities	<u>(4,514,018)</u>	<u>(14,716,393)</u>
Net increase (decrease) in cash from discontinued operations	<u>40,059,815</u>	<u>(18,403,105)</u>

(1) Gross sale proceeds were offset by non-cash repayment of the sale deposit of \$16.1 million (US\$12.2 million) and the Tianqi loan of \$40.7 million (US\$30 million) (refer note 19(d) and 33).

(c) Details of the sale of the subsidiary

Consideration received or receivable:		
Total disposal cash consideration	103,714,762	-
Carrying amount of net assets sold	<u>(35,977,708)</u>	<u>-</u>
Gain on sale before income tax and reclassification of foreign currency translation reserve	67,737,054	-
Reclassification of foreign currency translation reserve	8,320,093	-
Income tax expense on gain	-	-
Gain on sale after income tax	<u>76,057,147</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

10. DISCONTINUED OPERATIONS

(c) Details of the sale of the subsidiary

The carrying amounts of assets and liabilities as at the date of sale (14 April 2015) were:

	\$
Cash and cash equivalents	298,463
Property, plant and equipment	165,389,091
Lease prepayments	1,976,898
Trade and other receivables	21,089,635
Inventories	11,320,188
Total assets	200,074,275
Trade creditors and accruals	36,015,232
Interest bearing liabilities	128,081,335
Total liabilities	164,096,567
Net Assets	35,977,708

(d) Assets and liabilities of disposal group classified as held for sale

	2015 \$	2014 \$
Assets classified as held for sale:		
Cash and cash equivalents	-	191,474
Property, plant and equipment	-	154,073,912
Lease prepayments	-	1,298,528
Trade and other receivables	-	20,925,066
Inventories	-	10,742,139
Total assets of disposal group held for sale	-	187,231,119
Liabilities directly associated with assets classified as held for sale:		
Trade creditors and accruals	-	31,283,827
Interest bearing liabilities	-	124,520,433
Total liabilities of disposal group held for sale	-	155,804,260

11. CASH AND CASH EQUIVALENTS

Current

Cash at bank and on hand	4,761,163	13,389,040
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The amount detailed in note 12(a) below was received subsequent to balance date and treated as cash at bank. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

12. TRADE AND OTHER RECEIVABLES

	2015 \$	2014 \$
Current		
Trade receivables	66,430	11,110
Proceeds receivable from secured debt instrument ^(a)	6,200,000	-
Other receivables ^(b)	85,684	136,211
Prepayments	166,394	256,498
Security bonds	99,250	80,269
R&D refund receivable	-	185,401
	6,617,758	669,489

(a) Amount drawn on OCP secured debt facility not credited to Company bank account at 31 December 2015. Funds subsequently received into the nominated bank account in February 2016.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

13. INVENTORIES

	2015	2014
	\$	\$
Current		
Consumables – at cost	2,158,763	2,190,041
Provision for obsolescence	(1,094,171)	(1,094,171)
Carrying amount of inventories in continuing operations	1,064,592	1,095,870

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Plant & Equipment	Assets under construction	Development expenditure	Total
Cost	\$	\$	\$	\$	\$
Balance at 1 January 2014	1,411,742	128,079,354	-	17,707,736	147,198,832
Additions	-	139,383	4,436,597	-	4,575,980
Disposals	-	(27,295)	-	-	(27,295)
Foreign exchange movement	-	12,760,212	985,447	-	13,745,659
Assets held in a disposal group classified as held for sale	-	(12,971,498)	(5,422,044)	-	(18,393,542)
Balance at 31 December 2014	1,411,742	127,980,156	-	17,707,736	147,099,634
Additions	-	18,986	-	-	18,986
Disposals	-	(307,325)	-	-	(307,325)
Foreign exchange movement	-	(140,238)	-	-	(140,238)
Balance at 31 December 2015	1,411,742	127,551,579	-	17,707,736	146,671,057
Accumulated Depreciation					
Balance at 1 January 2014	-	127,354,900	-	17,707,736	145,062,636
Depreciation	-	4,687,870	-	-	4,687,870
Disposals	-	(24,868)	-	-	(24,868)
Impairment ^(a)	-	26,724	-	-	26,724
Foreign exchange movement	-	1,879,653	-	-	1,879,653
Assets held in a disposal group classified as held for sale	-	(6,441,030)	-	-	(6,441,030)
Balance at 31 December 2014	-	127,483,249	-	17,707,736	145,190,985
Depreciation	-	120,200	-	-	120,200
Disposals	-	(255,320)	-	-	(255,320)
Foreign exchange movement	-	(69,630)	-	-	(69,630)
Balance at 31 December 2015	-	127,278,499	-	17,707,736	144,986,235
Net book value					
At 31 December 2014	1,411,742	496,907	-	-	1,908,649
At 31 December 2015	1,411,742	273,080	-	-	1,684,822
Net book value held for sale					
At 31 December 2014	-	143,326,922	10,746,990	-	154,073,912
At 31 December 2015	-	-	-	-	-

(a) Impairment property, plant and equipment

Galaxy executed an agreement with GMM on 4 September 2015 to acquire a 50% interest in Mt Cattlin for \$25 million which includes all the tenements, plant and equipment and consumables. Major milestones under the MTC Agreement include GMM achieving CapEx commitments on the Mt Cattlin plant of \$7 million by 31 December 2015 and starting production by 31 March 2016, at which time the first 14% equity transfer will be completed. Additional equity will be transferred as quarterly repayments of \$1.5 million are made by GMM over three years.

In 2015 no further impairment expense (2014 \$26,724) 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 9). The Mt Cattlin mine and processing plant operations have been suspended since March 2013 and have a carrying value of \$1.4 million at 31 December 2015 representing land value.

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 of disposal. Due to continued uncertainty over restarting the plant by 31 March 2016 the recoverable amount was determined based on fair value less costs of disposal. Fair value less costs of disposal was estimated based on an assessment of the level of interest expressed by potential third 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. EXPLORATION AND EVALUATION ASSETS

	Boxwood Hill	Mt Cattlin	Sal de Vida	James Bay	Total
Cost:	\$	\$	\$	\$	\$
Balance at 1 January 2014	870,812	3,270,319	125,473,636	7,500,000	137,114,767
Additions	50,946	464,485	4,098,279	92,684	4,706,394
Impairment ^(a)	(921,758)	-	-	(5,609,744)	(6,531,502)
Foreign exchange movement	-	-	(4,311,594)	17,060	(4,294,534)
Balance at 31 December 2014	-	3,734,804	125,260,321	2,000,000	130,995,125
Additions	7,583	246,076	1,901,915	18,904	2,174,478
Impairment ^(a)	(7,583)	(311,720)	-	-	(319,303)
Foreign exchange movement	-	-	(8,717,879)	(126,906)	(8,844,785)
Balance at 31 December 2015	-	3,669,160	118,444,357	1,891,998	124,005,515

(a) Impairment

James Bay

In previous years the Company has booked impairments against the carrying value of its interest in James Bay. On 4 September 2015 Galaxy executed a James Bay Lithium Project Farm-in and Joint Venture Agreement ("Farm-in") with General Mining Corporation Limited ("GMM"). Under the Farm-in GMM must expend US\$5.0 million on exploration within three years to earn a 50% interest in James Bay with minimum US\$2.5 million to be expended within the first two years. It is anticipated that a DFS team will be assembled before the end of the year to begin work on the project. There has been no impairment reversal recorded for the carrying value of James Bay at 31 December 2015 as this Farm-in remains dependent on GMM being successful in raising the required funds.

Boxwood Hill

The Group has no substantive exploration activities planned for Boxwood Hill and some other miscellaneous Australian tenements. As a result these tenements have been written down to \$Nil and an impairment expense of \$7,583 (2014: \$921,758) was recognised in the profit or loss for the year ended 31 December 2015.

Mt Cattlin

In 2015 some tenements within the Mt Cattlin area had no further exploration activities planned or were surrendered. As a result impairment tests were undertaken and resulted in an impairment expense of \$311,720 (2014: \$Nil) being recognised in the profit or loss for the year ended 31 December 2015.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015	2014
	\$	\$
Equity securities, at fair value	1,548,555	39,971

As at 31 December 2015 the Group's available-for-sale financial assets were revalued on the basis of a significant increase in their fair market value. During the year the Group participated in a rights issue, for which it paid \$50,000 for 1,000,000 shares in General Mining Corporation Limited. Improved conditions in the market in which these securities operated indicated that the fair value of the Group's investment had increased so the securities were revalued and a gain \$1,459,715 (2014: loss of \$60,000 to profit or loss) was recognised in other comprehensive income for the year ended 31 December 2015, which represented the fair value above the previous impaired value in accordance with the policy set out in note 3(e).

17. TRADE AND OTHER PAYABLES

	2015	2014
	\$	\$
Trade payables	448,696	826,642
Payroll tax and other statutory payables	47,976	62,994
Accrued interest payable	338,150	4,131,530
Other payables	526,424	140,798
	1,361,246	5,161,964

Trade and other payables mainly represented amounts owing for general expenses and accrued interest on loans. These are expected to be settled within one year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

18. PROVISIONS

Movement in provisions	Rehabilitation	Onerous Contracts	Annual Leave	Total
	\$	\$	\$	\$
Balance at 1 January 2014	6,871,182	1,420,510	29,068	8,320,760
Movement in provision	584,073	(915,360)	117,238	(214,049)
Balance at 31 December 2014	7,455,255	505,150	146,306	8,106,711
Movement in provision	(281,584)	(468,025)	(131,080)	(880,689)
Balance 31 December 2015	7,173,671	37,125	15,226	7,226,022
			2015	2014
			\$	\$
Total provisions				
Current			52,351	651,456
Non-current			7,173,671	7,455,255
Total			7,226,022	8,106,711

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

Australia

A provision of \$2,994,861 is recognised in respect of the rehabilitation obligations for Mt Cattlin, this amount has not changed during the year and is the same as the 31 December 2014 financial statements.

The Mt Cattlin Plant was placed on care and maintenance in March 2013. The rehabilitation estimate has been based on a Mine Closure Report taking into account the inactivity of the Plant.

Canada

A provision of \$4,178,810 is recognised 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.

19. INTEREST BEARING LIABILITIES

	2015	2014
	\$	\$
Current		
Convertible bonds ^(b)	-	60,000,000
Secured loan ^(c)	-	4,450,055
Tianqi loan ^(d)	-	36,782,737
Balance at end of the year	-	101,232,792
Non-current		
Secured loan facility ^(e)	31,000,000	-
Capitalised finance costs	(2,706,641)	-
Balance at end of the year	28,293,359	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

19. INTEREST BEARING LIABILITIES

(a) Summary of movements in interest bearing liabilities

	Convertible bonds (b)	Secured loan (c)	Tianqi loan (d)	Secured loan facility (e)	Capitalised finance costs	Total
Balance 1 January 2014	60,000,000	4,702,000	-	-	-	64,702,000
Initial recognition	-	1,533,332	32,212,572	-	-	33,745,904
Interest expense	6,274,667	536,061	1,298,027	-	-	8,108,755
Interest repayments	(6,240,000)	(507,327)	(805,314)	-	-	(7,552,641)
Unpaid accrued interest	(34,667)	(28,734)	(459,784)	-	-	(523,185)
Foreign exchange	-	-	4,537,236	-	-	4,537,236
Repayment	-	(1,785,277)	-	-	-	(1,785,277)
Balance 31 December 2014	60,000,000	4,450,055	36,782,737	-	-	101,232,792
Initial recognition	-	-	837,536	31,000,000	(2,803,947)	29,033,589
Interest and SBP expense	5,467,223	402,978	958,909	322,740	97,306	7,249,156
Interest repayments	(7,429,890)	(406,686)	(1,445,133)	-	-	(9,281,709)
Accrued interest	3,162,667	69,223	459,784	(322,740)	-	3,368,934
Foreign exchange	-	-	2,597,595	-	-	2,597,595
Discount on bonds	(4,200,000)	-	-	-	-	(4,200,000)
Conversion to shares	-	(4,515,570)	-	-	-	(4,515,570)
Repayment	(57,000,000)	-	(40,191,428)	-	-	(97,191,428)
Balance 31 December 2015	-	-	-	31,000,000	(2,706,641)	28,293,359

(b) Convertible bonds

On 11 November 2015 the Company settled the repurchase of bonds with a principal of \$30 million for cash consideration of \$25.8 million plus accrued interest resulting in a gain on extinguishment of \$4.2 million being credited to the profit and loss during the year (refer note 5). The remaining balance of \$30 million convertible bonds plus accrued interest was repaid following maturity on 19 November 2015.

(c) Secured loan

Galaxy entered into a \$5 million subordinated secured short term loan 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. An Amended and Restated Facility Agreement was executed on 1 April 2015 extending the facility to 31 March 2016 and included the issue of 25 million unlisted options in the Company as a lender fee (refer note 22(b)(ii)).

As a condition of the new secured loan facility (detailed below at (e)) executed by the Company the Consortium loan had to be repaid or converted to shares to release the security to be utilised by the new financier. On 24 November 2015 the Consortium exercised its right to convert the loan and accrued interest of \$4,515,570 to 129,016,286 fully paid ordinary shares in the Company at \$0.035 per share (refer note 21(a)(ii)).

(d) Tianqi loan agreement

The US\$30 million loan facility with Tianqi Group HK Co. Limited was settled on 14 April 2015 as part of the completion of the sale of the Jiangsu Plant.

(e) Secured loan facility

On 24 November 2015 the Company executed a Facility Agreement with OL Master (Singapore) Pte. Limited for a secured loan of \$31 million for a term of 3 years. Interest rate on the facility is 10% and fees to establish the facility included a facility fee of 8% payable in shares (refer note 23(a)(iii)) and 10 million warrants (refer note 23(d)). The facility was fully drawn at 31 December 2015 with funds of \$6.2 million remaining uncredited to the Company's account at that date. These remaining funds were subsequently received in February 2016 once a suitable bank account was established to meet the facility requirements. This account is required to contain the equivalent of two years interest on the secured loan balance at any time during the first two years of the facility. The account will also receive distributions from the Mt Cattlin operations of which 70% will be utilised to repay the secured loan and 30% transferred to the Company.

The secured loan facility is recognized and measured at amortised cost.

20. CONTINGENT ASSETS AND LIABILITIES

Except for the disputed items with Tianqi detailed in note 10(a) there are no other material contingent assets or liabilities as at 31 December 2015 (2014: None).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

21. EQUITY

(a) Contributed equity

(i) Share capital

	2015 Number	2014 Number	2015 \$	2014 \$
Fully paid ordinary shares	1,264,433,185	1,064,783,990	459,217,804	450,692,932

(ii) Movement in ordinary share capital

	Number	\$
Balance 1 January 2014	1,027,058,768	448,460,634
Employee share issues	37,415,254	2,207,500
Exercise of options	309,968	24,798
Balance at 31 December 2014	1,064,783,990	450,692,932
Employee share issues	38,400,000	1,552,600
Loan conversion	129,016,286	4,515,570
Facility fee	32,232,909	2,480,000
	1,264,433,185	459,241,102
Transaction costs	-	(23,298)
Balance at 31 December 2015	1,264,433,185	459,217,804

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

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.

(iii) Listed Options

	2015 Number	2014 Number
Ordinary shares, issued and fully paid		
Balance at the beginning of the year	-	661,885,434
Issue of listed options	-	25,000,000
Exercise of listed options	-	(309,968)
Expiry of listed options	-	(686,575,466)
Balance at the end of the year	-	-

Issue of ordinary shares and listed options

On 14 April 2014 25,000,000 listed options were issued to the Consortium in consideration for provision of the Facility in July 2013 as detailed in note 19. The options granted to the lender were valued at \$800,000 and expensed to the profit or loss in 2013. These options expired 31 December 2014.

(iv) Unlisted options

Particulars of unlisted options including options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period is set out in note 22.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

21. EQUITY

(b) Reserves

The following table shows the movements in reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

	Equity-settled payments reserve	Foreign currency translation reserve	Fair value reserve	Total reserves
	\$	\$	\$	\$
Balance at 1 January 2014	16,035,152	(1,569,794)	-	14,465,358
Foreign currency translation differences	-	(1,592,927)	-	(1,592,927)
Total comprehensive loss	-	(1,592,927)	-	(1,592,927)
Transactions with owners in their capacity as owners				
Share-based payment transactions	113,770	-	-	113,770
Transfer of reserve upon forfeit of options	(1,000,103)	-	-	(1,000,103)
Balance at 31 December 2014	15,148,819	(3,162,721)	-	11,986,098
Change in fair value of available-for-sale assets	-	-	1,459,715	1,459,715
Foreign currency translation differences	-	(5,094,788)	-	(5,094,788)
Currency translation differences transferred to income		(8,320,093)		(8,320,093)
Total comprehensive loss	-	(13,414,881)	1,459,715	(11,955,166)
Transactions with owners in their capacity as owners				
Share-based payment transactions	1,647,022	-	-	1,647,022
Transfer of reserve upon forfeit of options	(8,310,750)	-	-	(8,310,750)
Balance at 31 December 2015	8,485,091	(16,577,602)	1,459,715	(6,632,796)

(i) Nature and purpose of reserves

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).

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).

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.

(c) Capital Management

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.

	2015 \$	2014 \$
Total liabilities	36,880,627	285,264,039
Less: cash and cash equivalents	(4,761,163)	(13,580,514)
Net debt	32,119,464	271,683,525
 Total equity	 102,801,779	 50,065,224
Net debt to equity ratio at 31 December	0.31	5.43

During the year, the Group has maintained the capital base through loans 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. SHARE BASED PAYMENTS

(a) Shares

i. Director shares

On 1 June 2015 27,500,000 fully paid ordinary shares were issued to directors (or their nominees) arising from the approval of various resolutions at the 29 May 2015 Annual General Meeting ("AGM"). Share based payments of \$1,127,500 (\$0.041 per share) has been expensed to the profit or loss for the year ended 31 December 2015.

ii. Management shares

On 1 June 2015 10,900,000 fully paid ordinary shares were issued to management (or their nominees) arising from the approval of a resolution at the AGM on 29 May 2015. Share based payments of \$425,100 (\$0.039 per share) has been expensed to the profit or loss for the year ended 31 December 2015.

iii. Financier shares

On 24 November 2015 the Company executed a Facility Agreement for a secured loan of \$31 million for a term of 3 years (refer note 19(e)). As a condition of the agreement 32,232,909 fully paid ordinary shares were issued to the financier representing an 8% facility fee. A capitalised financing fee of \$2,480,000 (\$0.07694 per share) was recorded against the secured loan facility on the balance sheet to be expensed over the period of the loan. During the year ended 31 December 2015 the Company expensed \$86,064 share based payment to the profit or loss.

(b) Options

i. Employee option scheme

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.

No options were granted to employees during the year (2014 Nil).

ii. Lender options

On 1 April 2015 25,000,000 unlisted options were issued to the Consortium in consideration for extension of the Facility to 31 March 2016 as detailed in note 7. The issue of these options was ratified at the Annual General Meeting held 29 May 2015. The options are exercisable at \$0.03, expire 3 years from issue and vest immediately.

The options granted to the lender have been valued at \$430,000 and expensed to the profit or loss during the year ended 31 December 2015. The valuation was calculated using a Black Scholes model with the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	70%
Risk free interest rate (%)	1.83%
Expected life of options (years)	3 years
Option exercise price (\$)	\$0.03
Share price at entitlement date (\$)	\$0.034

iii. Summary of options granted

	2015		2014	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$	'000	\$	'000
Outstanding at the beginning of the year	0.77	33,500	1.05	29,400
Exercised during the year	-	-	-	-
Forfeited during the year	1.16	(14,650)	0.91	(3,750)
Expired during the year	-	-	0.63	(4,150)
Granted during the year	0.03	25,000	0.08	12,000
Outstanding at the end of the year	0.22	43,850	0.77	33,500
Exercisable at the end of the year	0.13	40,600	0.32	15,600

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. SHARE BASED PAYMENTS

(b) Options

iv. Summary of options outstanding at end of year

Grant date	Option Class	Options outstanding	Vesting conditions	Non-vesting conditions	Contractual life of option	Exercise price
10/03/2010	E3	150,000	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	\$1.11
10/03/2010	H	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	\$1.11
10/03/2010	I	3,600,000	Completion of 18 months of employment	None	5 years from the vesting date	\$1.11
22/12/2010	K1	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 based on the 10 day VWAP.	None	5 years from the vesting date	\$1.16
22/12/2010	K2	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	\$1.16
24/03/2011	L	100,000	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	\$1.16
19/09/2014		12,000,000	Fully vested	None	2 years from issue date	\$0.08
01/04/2015		25,000,000	Fully vested	None	3 years from issue date	\$0.03
Total		43,850,000				

v. 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 and L) simulations. The Company has applied an appropriate probability weighting to factor the likelihood of the satisfaction of non-vesting conditions.

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 K1 and K2 which has been taken into account in measuring the grant date fair value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. SHARE BASED PAYMENTS

(c) Share appreciation rights

At the AGM on 29 May 2015 shareholders approved the establishment of the Galaxy Resources Limited Long Term Incentive Plan ("LTIP"). At this meeting shareholders also approved the issue of 26,500,000 Share Appreciation Rights ("SARS") to directors under the LTIP.

i. Director SARS

26,500,000 SARS were issued to directors on 19 June 2015. The SARS were valued at \$738,026, based on four tranches with varying vesting conditions, and expensed to the profit or loss in the year ended 31 December 2015. The tranche valuations were calculated using Black Scholes models with the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	70%
Risk free interest rate (%)	1.83%
Expected life of options (years)	5-7 years
Option exercise price (\$)	\$0.030
Share price at entitlement date (\$)	\$0.041

ii. Employee SARS

10,600,000 SARS were issued to employees on 19 June 2015. The SARS were valued at \$214,650, based on four tranches with varying vesting conditions, and expensed to the profit or loss in the year ended 31 December 2015. Subsequently 3,000,000 SARS were cancelled during the year with a credit of \$59,600 to the profit and loss. The tranche valuations were calculated using Black Scholes models with the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	70%
Risk free interest rate (%)	1.83%
Expected life of options (years)	5-7 years
Option exercise price (\$)	\$0.030

iii. Summary of SARS granted

	2015		2014	
	Weighted average exercise price	Number of SARS	Weighted average exercise price	Number of SARS
	\$	'000	\$	'000
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	0.03	37,100	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	0.03	(3,000)	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	0.03	34,100	-	-
Exercisable at the end of the year	0.03	17,050	-	-

(d) Warrants

On 24 November 2015 the Company executed a Facility Agreement for a secured loan of \$31 million for a term of 3 years (refer note 19(d)). As a condition of the facility Galaxy also executed a Warrant Instrument agreement on the same day which entitles the financier to 10,000,000 warrants in the Company to be issued 6 months from the date of the agreement subject to approval by the shareholders of the Company. The warrants entitle the financier to subscribe for fully paid ordinary shares in the Company, exercisable at the higher of \$0.08 or the 20 day VWAP at 192 days from the agreement date, expire 3 years from the agreement date and vest immediately.

The warrants to be granted to the lender have been valued at \$323,947 and capitalised against the secured loan facility on the statement of financial position to be expensed over the period of the loan. During the year ended 31 December 2015 \$11,242 was expensed to the profit or loss. The valuation was calculated using a Black Scholes model with the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	69%
Risk free interest rate (%)	2.09%
Expected life of options (years)	3 years
Option exercise price (\$)	\$0.08
Share price at entitlement date (\$)	\$0.081

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

22. SHARE BASED PAYMENTS

(e) Recognised share based payment expense in profit or loss

Total expenses arising from share based payment transactions recognised during the year:

	2015	2014
	\$	\$
<i>Recognised as employment costs in the profit or loss:</i>		
Expense arising from directors, or their nominees shares and SARS	1,865,526	2,107,500
Expense arising from employee shares and SARS	580,150	-
	2,445,676	2,107,500
<i>Recognised as finance costs in the profit or loss:</i>		
Expense arising from financier shares and warrants	97,306	-
Expense arising from lender options	430,000	213,770
	527,306	213,770
Total share based payments	2,972,982	2,321,270

23. PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ended 31 December 2015, the parent company of the Group was Galaxy Resources Limited.

Result of the parent entity	2015	2014
	\$	\$
Profit (loss) for the year	5,629,344	(14,406,344)
Other comprehensive profit	1,455,000	-
Total comprehensive profit (loss) for the year	7,084,344	(14,406,344)
Financial Position of parent entity at year end		
Current Assets	7,146,624	1,224,580
Total Assets	102,441,687	132,406,833
Current Liabilities	984,160	67,809,425
Total Liabilities	29,277,519	67,809,425
Total equity of the parent entity comprising of:		
Contributed Equity	459,217,805	450,485,432
Reserves	9,940,092	15,735,049
Accumulated losses	(395,993,729)	(401,623,073)
Total Equity	73,164,168	64,597,408

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 30 for further details.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

24. COMMITMENTS

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

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:

	2015 \$	2014 \$
Within one year	521,400	437,900

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. The Company anticipates that the commitments in respect of the Mt Cattlin tenements will be satisfied by GMM expenditure incurred in accordance with the MTC Agreement.

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

	2015 \$	2014 \$
Within one year	195,498	91,110
More than one year but less than five years	6,641	-
	202,139	91,110

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.

25. RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	2015 \$	2014 \$
Salaries and other short-term emoluments	979,419	895,441
Contributions to retirement benefit schemes	4,338	23,940
Share-based payments	1,879,400	2,207,500
	2,863,157	3,126,881

Detailed remuneration disclosures are provided in the remuneration report on pages 4 to 8.

26. AUDITOR'S REMUNERATION

Shareholders approved the appointment of PricewaterhouseCoopers as statutory auditor on 20 June 2014 replacing KPMG.

	Audit services	Taxation & other services	Total	Audit services	Taxation & other services	Total
	2015 \$	2015 \$	2015 \$	2014 \$	2014 \$	2014 \$
Auditors of the Company						
- PWC Australia:	169,000	108,938	277,938	222,500	42,292	264,792
- PWC China	-	-	-	106,562	-	106,562
- PWC Netherlands	-	-	-	-	4,326	4,326
- PWC Hong Kong	-	218,465	218,465	-	-	-
- PWC Canada	-	32,173	32,173	-	-	-
- PWC USA	-	19,298	19,298	-	-	-
- PWC Argentina	-	13,750	13,750	-	-	-
Total paid to PWC for the provision of services	169,000	392,624	561,624	329,062	46,618	375,680
- KPMG Australia	-	22,000	22,000	275,960	113,068	389,028
- KPMG People's Republic of China	-	-	-	79,742	-	79,742
- KPMG Hong Kong	-	-	-	16,078	-	16,078
- KPMG Canada	-	-	-	-	23,729	23,729
- KPMG USA	-	-	-	-	12,134	12,134
Total paid to KPMG for the provision of services	-	22,000	22,000	371,780	148,931	520,711

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. EVENTS SUBSEQUENT TO REPORTING DATE

On 21 January 2016 the Company announced that GMM had supplied the CapEx commitment schedule of \$7 million for Mt Cattlin plant as required by the MTC Agreement. Production was also on schedule to restart by 31 March 2016.

On 8 March 2016 the Company announced that Galaxy and GMM had executed binding Lithium Concentrate Agreements with two Chinese customers for the sale of lithium concentrate from MTC. A summary of the agreements is as follows:

- 60,000 tonnes of lithium concentrate sold for 2016 delivery at US\$ 600/t (FOB).
- Prepayment of 50% of total 2016 order value (US\$ 18 million) payable as cash advance prior to 31 March 2016.
- Commitment to purchase 120,000 tonnes of lithium concentrate in 2017 subject to price finalisation in Q4 2016.

Other than the items 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.

28. 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 receivable financial assets. Other receivables predominantly relate to security deposits and GST/VAT refunds. Management do not consider this receivable balance is subject to any material credit risk.

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 as follows:

	Note	Carrying amount	
		2015 \$	2014 \$
Trade and other receivables	12	6,617,758	669,489
Cash and cash equivalents	11	4,761,163	13,389,040
		11,378,921	14,058,529

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

28. FINANCIAL RISK MANAGEMENT

(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 reputation (refer note 2(e)).

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

Group as at 31 December 2015

	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	1,361,246	1,361,246	1,361,246	-	-	-
Secured loan facility	31,000,000	40,300,000	3,100,000	3,100,000	34,100,000	-
Total	32,361,246	41,661,246	4,461,246	3,100,000	34,100,000	-

Group as at 31 December 2014

	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	5,161,964	5,161,964	5,161,964	-	-	-
Secured bank loans	128,970,488	131,438,950	131,438,950	-	-	-
Tianqi loan	36,782,737	38,282,523	38,282,523	-	-	-
Convertible bonds	60,000,000	68,640,000	68,640,000	-	-	-
Total	230,915,189	243,523,437	243,523,437	-	-	-

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

(c) Market risk

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	2015		2014	
	USD	AUD	USD	AUD
Cash and cash equivalents	2,790,733	3,823,970	10,497,621	12,871,041
Interest bearing liabilities	-	-	(30,000,000)	(36,782,737)
Balance sheet exposure	2,790,733	3,823,970	(19,502,379)	(23,911,696)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
AUD				
USD 1	0.753	0.902	0.730	0.816

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. FINANCIAL RISK MANAGEMENT

(c) Market risk

Foreign exchange risk

Sensitivity analysis

A 10% strengthening of the Australian dollar against the following currencies would have (increased)/decreased equity and profit/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 2015		31 December 2014	
	Equity	Profit for the period	Equity	Loss for the period
USD	-	347,634	-	3,496,776

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.

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 variable rates that expose the Group to cash flow interest rate risk.

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 2015	31 December 2014
Cash and cash equivalents	\$4,761,163	\$13,580,514
- Interest rate	0% to 1.39%	0% to 3.39%
Interest bearing liabilities	31,000,000	124,520,433
- Interest rate	10%	6.56% to 10%

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 2015	Year Ended 31 December 2014
Cash and cash equivalents		
Increase of 100 basis points	(47,612)	(135,805)
Decrease of 100 basis points	47,612	135,805
Interest bearing liabilities		
Increase of 100 basis points	-	1,245,204
Decrease of 100 basis points	-	(1,245,204)

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

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.

Revaluation

As at 31 December 2015, the Group's available-for-sale financial assets were revalued on the basis of an increase in their fair market value. As a result a gain of \$1,459,715 (2014: \$60,000 loss to profit or loss) was recognised in other comprehensive income which represented the excess of fair value over cost.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. FINANCIAL RISK MANAGEMENT

(d) 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 2015		31 December 2014	
	Level 1	Level 3	Level 1	Level 3
Available-for-sale financial assets	1,548,554	-	39,971	-
Financial liabilities at fair value through the profit and loss	-	-	-	60,000,000

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

	2015 \$	2014 \$
Financial liabilities at fair value through the profit and loss		
Balance at 1 January	60,000,000	60,000,000
Convertible bonds repaid	(60,000,000)	-
Balance at 31 December	-	60,000,000

(e) 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.

29. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical judgements

Impairment of assets, reversal of impairments on 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 of disposal, 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 notes 14 and 15 for details.

(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, 2012 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 29(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

29. ACCOUNTING JUDGEMENTS AND ESTIMATES

(b) Estimates and assumptions

(iv) 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).

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.

(v) 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 19(a).

30. 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 lodgment 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 profit or loss and other 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 2015 is set out as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income	2015	2014
	\$	\$
Finance income	4,276,873	34,933
Other income	50,000	185,401
Gain on sale of subsidiary	53,714,762	-
Expenses		
Operating costs	(110,309)	(309,954)
Administration costs	(4,073,976)	(4,299,614)
Employment costs	(4,317,211)	(4,494,200)
Depreciation	(73,757)	(98,201)
Finance costs	(9,600,545)	(9,588,900)
Foreign exchange gains	357,447	545,199
Impairment of property, plant and equipment	-	(26,724)
Impairment of exploration and evaluation	(319,303)	(921,758)
Impairment of investment in subsidiary	-	(79,455,370)
Provision for rehabilitation	-	(581,251)
Profit (loss) before taxation	39,903,981	(99,010,439)
Income tax	-	-
Profit (loss) for the year	39,903,981	(99,010,439)
Other comprehensive profit	1,455,000	-
Total comprehensive profit (loss) for the year	41,358,981	(99,010,439)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

30. DEED OF CROSS GUARANTEE

Consolidated Statement of Financial Position

	2015 \$	2014 \$
CURRENT ASSETS		
Cash and cash equivalents	4,188,536	13,118,877
Other receivables and prepayments	6,598,717	7,690,715
Inventories	1,064,592	1,095,870
	11,851,845	21,905,462
Assets classified as held for sale	-	50,000,000
TOTAL CURRENT ASSETS	11,851,845	71,905,462
NON-CURRENT ASSETS		
Property, plant and equipment	1,492,228	1,591,487
Exploration and evaluation assets	3,669,160	3,734,804
Available-for-sale financial assets	1,530,000	25,000
Other receivables and prepayments	31,055,808	28,147,101
Investments in subsidiaries	86,104,566	86,104,566
TOTAL NON-CURRENT ASSETS	123,851,762	119,602,958
TOTAL ASSETS	135,703,607	191,508,420
CURRENT LIABILITIES		
Trade and other payables	1,096,872	11,624,960
Deposit for Jiangsu transaction	-	14,958,313
Provisions	52,351	146,306
Interest bearing liabilities	-	101,232,792
TOTAL CURRENT LIABILITIES	1,149,223	127,962,371
NON-CURRENT LIABILITIES		
Provisions	2,994,861	3,500,011
Interest bearing liabilities	28,293,359	-
TOTAL NON-CURRENT LIABILITIES	31,288,220	3,500,011
TOTAL LIABILITIES	32,437,443	131,462,382
NET ASSETS	103,266,164	60,046,038
CAPITAL AND RESERVES		
Contributed equity	459,217,804	450,692,932
Reserves	9,940,092	15,148,819
Accumulated losses	(365,891,732)	(405,795,713)
TOTAL EQUITY	103,266,164	60,046,038

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

	2015 \$	2014 \$
Profit (loss) for the year	54,862,456	(54,703,347)
Adjustment for:		
Gain on sale of subsidiary	(70,443,188)	-
Depreciation and amortisation	123,428	3,702,140
Net finance costs	-	17,494,993
Impairment	319,303	7,139,476
Share-based payments	2,972,982	2,321,270
	<u>(67,027,475)</u>	<u>30,657,879</u>
Change in trade and other receivables	591,208	2,872,239
Change in payables	5,273,749	17,486,343
Change in inventories	(546,770)	(5,630,736)
Change in prepayments	251,731	213,909
Change in provisions and employee benefits	(599,104)	117,238
	<u>4,970,814</u>	<u>15,058,993</u>
Net cash used in operating activities	<u>(7,194,205)</u>	<u>(8,986,475)</u>

32. NON-CASH FINANCING AND INVESTING ACTIVITIES

		2015 \$	2014 \$
Conversion of secured loan to equity	19(c)	4,515,570	-
Net settlement of debt with purchaser on sale of discontinued operations	10(b)	56,756,583	-

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Galaxy Resources Limited:

- (a) the consolidated financial statements and notes set out on pages 10 to 46 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 2015 and of its performance for the financial year 1 January 2015 to 31 December 2015; and
 - ii complying with Accounting Standards, other mandatory professional reporting requirements 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 4 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 issued by the International Accounting Standards Board 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, 23rd day of March 2016.



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 2015, the 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, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Galaxy Resources Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements 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. Those 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 consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We 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*.

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Liability limited by a scheme approved under Professional Standards Legislation.



Auditor's opinion

In our opinion:

- (a) the financial report of Galaxy Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 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 and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 4 to 7 of the directors' report for the year ended 31 December 2015. 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 Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Galaxy Resources Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry

Nick Henry
Partner

Perth
23 March 2016

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Galaxy Resources Limited (the "Company") is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

This statement sets out the main corporate governance practices in place throughout the financial year in accordance with 3rd edition of the ASX Principles of Good Corporate Governance and Best Practice Recommendations.

Further information about the Company's corporate governance practices is set out on the Company's website at www.galaxyresources.com.au.

This Statement was approved by the Board of Directors and is current as at 22 April 2016.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

ASX Recommendation 1.1: a listed entity should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

The Company has complied with this recommendation.

The Board has adopted a formal charter that details the respective board and management functions and responsibilities. A copy of this board charter is available in the corporate governance section of the Company's website at www.galaxyresources.com.au.

ASX Recommendation 1.2: a listed entity should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director and provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director

The Company has complied with this recommendation.

The Company did not elect any new Directors during the year.

Information in relation to Directors seeking reappointment is set out in the Directors Report and Notice of Annual General Meeting.

ASX Recommendation 1.3: a listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.

The Company has complied with this recommendation.

The Company has in place written agreements with each Director.

ASX Recommendation 1.4: the company secretary of a listed company should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company has complied with this recommendation.

The Board Charter provides for the Company Secretary to be accountable directly to the board through the Chair.

ASX Recommendation 1.5: a listed entity should:

- have a diversity policy which includes the requirement for the board to set measurable objectives for achieving gender diversity and assess annually the objectives and the entity's progress to achieving them;
- disclose the policy or a summary of it;
- disclose the measurable objectives and progress towards achieving them; and
- disclose the respective proportions of men and women on the board and at each level of management and the company as a whole

The Company partly complies with this recommendation.

The Company has adopted a Diversity Policy which is available in the corporate governance section of the Company's website at www.galaxyresources.com.au.

The Board considers that, due to the size, nature and stage of development of the Company given that it was previously in significant financial distress and has only recently completed a major financial restructuring exercise which took over two years to complete, setting measurable objectives for the Diversity Policy at this time is not appropriate. The Board will consider setting measurable objectives as the Company increases in size and complexity.

There are no women on the Board or in senior Management positions. The company currently has one female employee which represents 14% of the total workforce including Directors.

ASX Recommendation 1.6: a listed entity should disclose the process for evaluating the performance of the board, its committees and individual directors and whether a performance evaluation was carried out during the reporting period in accordance with that process.

The Company has complied with this recommendation.

The Board has adopted a self-evaluation process to measure its performance, and that of individual directors, during each financial year.

A performance review was undertaken during the reporting period.

ASX Recommendation 1.7: a listed entity should have and disclose a process for periodically evaluating the performance of its senior executives and disclose in relation to each reporting period where a performance evaluation was undertaken in accordance with a process.

The Company has partly complied with this recommendation.

Arrangements put in place by the Board to monitor the performance of the Company's executives include:

- a review by the Board of the Company's financial performance; and
- appraisal meetings or discussions incorporating analysis of performance with each individual.

The Company did not conduct a performance review of senior executives during the year due to the priority of the ongoing restructuring activities however a review will take place in this reporting period.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

ASX Recommendation 2.1: The board of a listed entity should establish a nomination committee:

- with at least three members the majority of which are independent directors
- chaired by an independent Director; and
- disclose the charter of the committee, the members of the committee and the number of times the committee met throughout the period and member attendance at those meetings

The Company has not complied with this recommendation.

Given the present size and complexity of the Company the Board has not constituted a Nomination Committee with the full Board carrying out the role of a Nomination Committee.

ASX Recommendation 2.2: a listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership

The Company has complied with this recommendation.

The Board has established a skill matrix. On a collective basis the Board has the following skills:

Strategic expertise - ability to identify and critically assess strategic opportunities and threats and develop strategies.

Specific industry knowledge – members of the Board have a broad background and experience in the resources sector including exploration, project development and mining.

International experience – members of the Board have an understanding of the complexities of operating in foreign jurisdictions, particularly developing countries, including a sound knowledge of the general corporate, mining, fiscal and labour laws and regulations.

Accounting and finance - members of the Board have either specific qualifications and experience in accounting and finance related fields or the ability to read and comprehend the company's accounts, financial material presented to the board, financial reporting requirements and an understanding of corporate finance.

Risk management – ability to identify and monitor risks to which the Company is, or has the potential to be exposed to.

Experience with financial markets - Experience in working in or raising funds from the equity or capital markets.

Investor relations - Experience in identifying and establishing relationships with Shareholders, potential investors, institutions and equity analysts.

ASX Recommendation 2.3: a listed entity should disclose the names of the directors considered by the board to be independent directors and provide details in relation to the length of service of each Director

The Company has complied with this recommendation.

Only the Chairman, Mr Martin Rowley is considered an independent director.

The appointment date of Directors is set out below:

Mr Martin Rowley	28 November 2013
Mr Anthony Tse	13 October 2010
Mr Charles Whitfield	28 November 2013
Mr George Zhang	28 November 2013

ASX Recommendation 2.4: the majority of the board of a listed entity should be independent directors

The Company has not complied with this recommendation.

The Board considers that the composition has been appropriate during the restructuring of the Company's affairs which has continued during the year.

The Board will continue to assess its size and composition as the activities of the Company change.

ASX Recommendation 2.5: The Chair of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity

The Company has complied with this recommendation.

The Chairman, Mr Martin Rowley, is considered to be an independent Director.

Mr Anthony Tse is Managing Director of the Company.

CORPORATE GOVERNANCE STATEMENT

ASX Recommendation 2.6: a listed entity should have a program for inducting new directors and provide appropriate professional development opportunities

The Company has complied with this recommendation.

The Board is responsible for providing new directors with an induction to the Company and for the program for providing adequate professional development opportunities for directors and management.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

ASX Recommendation 3.1: a listed entity should establish a code of conduct and disclose the code or a summary of the code.

The Company has complied with this recommendation.

The Company has established a code of conduct which requires all business affairs to be conducted legally, ethically and with integrity.

A copy of the Company's code of conduct is available in the corporate governance section of the Company's website at www.galaxyresources.com.au.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

ASX Recommendation 4.1: The Board of a listed entity should establish an audit committee:

- with at least three members, all of whom are non-executive directors and a majority of which are independent directors
- chaired by an independent Director; and
- disclose the charter of the committee, the members of the committee and the number of times the committee met throughout the period and member attendance at those meetings

The Company has partly complied with this recommendation.

The current members of the Audit and Risk Committee are:

Martin Rowley
George Zhang
Charles Whitfield

The qualifications of the members of the Board are set out in the Directors report.

Given the current size of the Board not all members of the Audit and Risk Committee are non-executive Directors and the majority of the Committee are not independent Directors. The Board considers that the composition of the committee has been appropriate during the restructuring of the Company's affairs which has continued during the year.

The Board will reassess the composition of the committee upon future changes to the size and composition of the Board.

ASX Recommendation 4.2: The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Company partly complies with this recommendation.

The Board has received the assurance required by ASX Recommendation 4.2 in respect of the financial statements for the half year ended 30 June 2015 and the full year ended 31 December 2015. Given the size and nature of the Company's operations the Board has not received the assurance in respect of the quarterly cash flow statements believing that the provision of the assurance for the half and full year financial statements is sufficient.

ASX Recommendation 4.3: a listed entity should ensure that the external auditor attends its Annual General Meeting and is available to answer questions from security holders relevant to the audit.

The Company has complied with this recommendation.

The external auditor attends the Annual General Meeting and is available to answer questions from shareholders relevant to the audit and financial statements. The external auditor will also be allowed a reasonable opportunity to answer written questions submitted by shareholders to the auditor as permitted under the Corporations Act.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

ASX Recommendation 5.1: a listed entity should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has complied with this recommendation.

The Company has established a continuous disclosure policy which is designed to guide compliance with ASX Listing Rule disclosure requirements and to ensure that all Directors, senior executives and employees of the Company understand their responsibilities under the policy. The Board has designated the Managing Director as the person responsible for ensuring that this policy is implemented and enforced and that all required price sensitive information is disclosed to the ASX as required.

In accordance with the Company's continuous disclosure policy, all information provided to ASX for release to the market is posted to its website at www.galaxyresources.com.au after ASX confirms an announcement has been made.

A copy of the continuous disclosure policy is available in the corporate governance section of the Company's website at www.galaxyresources.com.au.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

ASX Recommendation 6.1: a listed entity should provide information about itself and its governance to investors via its website

The Company has complied with this recommendation.

The Company's website at www.galaxyresources.com.au contains information about the Company's projects, Directors and management and the Company's corporate governance practices, policies and charters. All ASX announcements made to the market, including annual and half year financial results are posted on the website as soon as they have been released by the ASX. The full text of all notices of meetings and explanatory material, the Company's Annual Report and copies of all investor presentations are posted on the website.

ASX Recommendation 6.2: a listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors

The Company has complied with this recommendation.

The Company's Managing Director is the Company's main contact for investors and potential investors and make himself available to discuss the Company's activities when requested together with other Directors or senior executives as required. In addition to announcements made in accordance with its continuous disclosure obligations the Company, from time to time, prepares and releases general investor updates about the Company.

The Company has also appointed a Director – Corporate Development who's role encompasses dealing with investor enquires and communicating with shareholders, potential investors, brokers and institutions.

The Company has engaged the services of Investor Relations advisory firm to assist the Company with its investor relations program.

Contact with the Company can be made via an email address and a phone number provided on the Company's website.

ASX Recommendation 6.3: a listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders

The Company has complied with this recommendation.

The Company encourages participation of shareholders at any general meetings and its Annual General Meeting each year. Shareholders are encouraged to lodge direct votes or proxies subject to the adoption of satisfactory authentication procedures if they are unable to attend the meeting.

The full text of all notices of meetings and explanatory material are posted on the Company's website at www.galaxyresources.com.au.

ASX Recommendation 6.4: a listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security register electronically

The Company has complied with this recommendation.

Contact with the Company can be made via the facility or the email address provided on the website.

The Company's share register provides a facility whereby investors can provide email addresses to receive correspondence from the Company electronically and investors can contact the share register via telephone, facsimile or email.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

ASX Recommendation 4.1: The Board of a listed entity should have a committee to oversee risk:

- with at least three members, all of whom are non-executive directors and a majority of which are independent directors
- chaired by an independent Director; and
- disclose the charter of the committee, the members of the committee and the number of times the committee met throughout the period and member attendance at those meetings

The Company has partly complied with this recommendation.

The current members of the Audit and Risk Committee are:

Martin Rowley
George Zhang
Charles Whitfield

The qualifications of the members of the Board are set out in the Directors report.

Given the current size of the Board not all members of the Audit and Risk Committee are non-executive Directors and the majority of the Committee are not independent Directors. The Board considers that the composition of the committee has been appropriate during the restructuring of the Company's affairs which has continued during the year.

The Board will reassess the composition of the committee upon future changes to the size and composition of the Board.

ASX Recommendation 7.2: The Board or a committee of the Board, of a listed entity should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and disclose in relation to each reporting period whether such a review was undertaken

The Company has complied with this recommendation.

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and design of risk management is delegated to the appropriate level of management within the Company with the Managing Director and Chief Financial Officer being responsible to the Board for the risk management and control framework.

The Board conducted a review during the reporting period.

ASX Recommendation 7.3: a listed entity should disclose if it has an internal audit function and if it does not have an internal audit function that fact and the processes it employs for evaluating and continually improving the effectiveness of risk management and internal control processes

The Company has complied with this recommendation.

Given the Company's current size and level of operations it does not have an internal audit function.

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and design of risk management is delegated to the appropriate level of management within the Company with the Managing Director and Chief Financial Officer being responsible to the Board for the risk management and control framework.

ASX Recommendation 7.4: a listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does how it manages or intends to manage those risks.

The Company has complied with this recommendation.

The Company has exposure to economic risks, including general economy wide economic risks and risks associated with the economic cycle.

There may be a requirement in the future for the Company to raise additional funding to pursue its business objectives. The Company's ability to raise capital may be effected by these economic risks.

The Company has in place risk management procedures and processes to identify, manage and minimise its exposure to these economic risks where appropriate

The current operations of the Company are subject to State and Federal laws and regulations concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceed. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

The Board currently considers that the Company does not have any material exposure to social sustainability risk. The Company's Corporate Code of Conduct outlines the Company's commitment to integrity and fair dealing in its business affairs. The code sets out the principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from employees when dealing with stakeholders.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

ASX Recommendation 8.1: The board of a listed entity should establish a remuneration committee:

- with at least three members the majority of which are independent directors
- chaired by an independent Director; and
- disclose the charter of the committee, the members of the committee and the number of times the committee met throughout the period and member attendance at those meetings

The Company has partly complied with this recommendation.

The current members of the Remuneration Committee are:

Martin Rowley
George Zhang
Charles Whitfield

The qualifications of the members of the Board are set out in the Directors report.

Given the current size of the Board not all members of the Remuneration Committee are non-executive Directors and the majority of the Committee are not independent Directors. The Board considers that the composition of the committee has been appropriate during the restructuring of the Company's affairs which has continued during the year.

The Board will reassess the composition of the committee upon future changes to the size and composition of the Board.

ASX Recommendation 8.2: a listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives

The Company has complied with this recommendation.

Directors are paid a fixed annual fee for their service to the Company as a Non-Executive Director. Non-Executive Directors may, subject to shareholder approval, be granted equity based remuneration.

Executives of the Company typically receive remuneration comprising a base salary component and other fixed benefits based on the terms of their employment agreements with the Company and potentially the ability to participate in bonus arrangements and may, subject to shareholder approval, if appropriate, be granted equity based remuneration.

ASX Recommendation 8.3: a listed entity which has an equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions which limit the economic risk of participating in the scheme and disclose the policy or a summary of that policy.

The Company has complied with this recommendation.

A participant in an equity based remuneration plan operated by the Company must not enter into a transaction (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the equity based remuneration plan.

ASX ADDITIONAL INFORMATION

1. TOP TWENTY SHAREHOLDERS AT 11 APRIL 2016

Shareholder	Number of Shares	% Issued Capital
1. J P Morgan Nominees Australia Limited	164,885,171	13.04
2. Citicorp Nominees Pty Limited	96,411,924	7.62
3. HSBC Custody Nominees (Australia) Limited	91,587,026	7.24
4. National Nominees Limited	62,204,544	4.92
5. Creat Resources Holdings Limited	36,584,912	2.89
6. Mr Paul Cozzi	35,900,000	2.84
7. Bell Potter Nominees Limited <BB Nominees A/C>	19,728,400	1.56
8. Nero Resource Fund Pty Ltd <Nero Resource Fund A/C>	18,740,824	1.48
9. Marford Group Pty Ltd	17,972,925	1.42
10. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	16,060,968	1.27
11. Citos Super Pty Ltd <Citos Pty Ltd SF A/C>	15,100,000	1.19
12. HSBC Custody Nominees (Australia) Limited – <NT-Comnwlth Super Corp A/C>	14,847,942	1.17
13. Mrs Jenny Mary Baguley + Mr John Richard Baguley <Baguley Family S/F A/C>	13,000,000	1.03
14. Mr Anthony Peter Tse	12,118,644	0.96
15. Mr Charles Bernard Francis Whitfield	12,118,644	0.96
16. BNP Paribas Noms Pty Ltd <DRP>	11,311,346	0.89
17. Mr Anthony Tse	10,000,000	0.79
18. Computershare Trust Company of Canada	9,622,284	0.76
19. Marford Group Pty Ltd	9,262,945	0.73
20. Taurus Stone Development Limited	9,000,000	0.71
	676,458,499	53.47

2. SHARE HOLDINGS AT 11 APRIL 2016

(a) Distribution of Shareholders

Shareholding	Number of Holders
	Fully paid ordinary shares
1 - 1,000	349
1,001 - 5,000	1,234
5,001 - 10,000	1,239
10,001 - 100,000	3,934
100,001 - over	914
	7,670

(b) Unmarketable Parcels

There are 496 shareholders who hold less than a marketable parcel.

(c) Voting Rights

Voting rights are one vote per fully paid ordinary share.

3. NAMES OF SUBSTANTIAL HOLDERS

Shareholder	Number of Shares
Acorn Capital Limited	67,361,438
Paradise Investment Management Pty Ltd	66,489,224
Deutsche Bank AG and its related bodies	64,138,319

4. DISTRIBUTION OF UNLISTED OPTIONS

Distribution	\$0.03	\$0.08	\$1.11	\$1.16
10,001 – 100,000	-	-	-	2
100,001 - over	1	1	10	4
Total Holders	1	1	10	6
Total Units	25,000,000	12,000,000	3,950,000	2,900,000

Persons holding greater than 20% of unlisted securities not issued under an employment incentive scheme:

Clipper Group Limited – Unlisted options exercisable at \$0.03 on or before 1 April 2018 – 25,000,000 (100%)

Clipper Group Limited – Unlisted options exercisable at \$0.08 on or before 19 September 2016 – 12,000,000 (100%)

ASX ADDITIONAL INFORMATION

5. DISTRIBUTION OF SHARE APPRECIATION RIGHTS (ISSUED UNDER AN EMPLOYMENT INCENTIVE SCHEME)

Distribution	\$0.03
100,000 – 1,000,000	6
1,000,001 - over	4
Total Holders	10
Total Units	34,100,000

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.

8. TENEMENT SCHEDULE

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

9. MINERAL RESERVES AND RESOURCES

The Company has reviewed its Mineral Resources and Mineral Reserves as at 31 December 2015.

The following information in relation to the Company's Mineral Resources and Mineral Reserves is relevant as at 31 December 2014 and 31 December 2015.

Sal de Vida Project

Table 1 – Summary of Mineral Resource Estimate

Resource Category	Brine Volume (m ³)	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+Indicated	9.8 x 10⁸	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

Cut off grade: 500 mg/L lithium.

Table 2 – Probable and Proven Reserve Statement April 2013

Total tonnages for the economic reserve values provided in Table 2 account for anticipated leakage and process losses of lithium and potassium. Table 2 gives results of the Proven and Probable Reserves from the Southwest and East well fields when these percent estimated processing losses are factored in, assuming a continuous average brine extraction rate of 30,000 m³/d. The conversion factor for Lithium to Lithium Carbonate is: x 5.3228. The conversion factor for Potassium to Potassium Chloride is: x 1.907.

Reserve Category	Time Period	Li Total Mass (tonnes)	Li ₂ CO ₃ Equivalent (tonnes)	K Total Mass (tonnes)	KCl Equivalent (tonnes)
Proven	1 - 6	34,000	181,000	332,000	633,000
Probable	7 - 40	180,000	958,000	1,869,000	3,564,000
Total	40 years total	214,000	1,139,000	2,201,000	4,197,000

Assumes 500 mg/L Li cut off

James Bay Project

Table 3 - James Bay Mineral Resource Estimate, November 2010

Resource	Tonnes	Li ₂ O %
Indicated	11,750,000	1.30%
Inferred	10,470,000	1.20%
Total	22,220,000	1.28%

Note: Reported at a cut-off grade of 0.75 percent Li₂O inside conceptual pit shells with 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.

This Mineral Resource Estimate at the James Bay project was current at the time Galaxy acquired the project and no further estimation work has taken place since the acquisition of the project.

Mt Cattlin Project

31 December 2015

On 4 August 2015, General Mining Limited (GMM) announced an updated Resource and Reserve for the Mt Cattlin Project. GMM have the right to acquire a 50% interest in the Mt Cattlin Project.

Table 4 - Resource 4 August 2015. 0.4% cutoff, depleted for July 2012 EOM surface

Category	Tonnes	Li ₂ O %	Ta ₂ O ₅ ppm	Nb ₂ O ₅ ppm	Li ₂ O metal t	Ta ₂ O ₅ lbs
Measured	2,540,000	1.20	152	92	31,000	853,000
Indicated	9,534,000	1.06	170	85	101,000	3,566,000
Inferred	4,343,000	1.07	132	91	47,000	1,267,000
TOTAL	16,416,000	1.08	157	88	178,000	5,686,000
Total M & Indicated	12,073,336	1.09	166	86	131,000	4,419,000

Figures may not sum due to rounding and significant figures do not imply an added level of precision

ASX ADDITIONAL INFORMATION

Table 5 - Reserve September 2010, 0.4%Li2O cutoff, depleted for July 2012 EOM surface

Reserves	Tonnes	Li ₂ O %	Ta ₂ O ₅ ppm
Proved	2,430,000	1.11	141
Probable	7,544,000	1.02	152
TOTAL	9,974,000	1.04	149

31 December 2014

The following tables set out the Resources and Reserve estimates at 31 December 2014.

Table 6 - Resource March 2011. 0.4% 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 t	Ta ₂ O ₅ lbs
Measured	2,900,000	1.19	147	93	34,000	942,000
Indicated	9,906,000	1.06	168	85	105,000	3,665,000
Inferred	4,350,000	1.07	132	91	47,000	1,269,000
TOTAL	17,155,000	1.09	155	88	186,000	5,876,000
Total M & Indicated	12,805,000	1.09	163	87	140,000	4,607,000

Figures may not sum due to rounding and significant figures do not imply an added level of precision

Table 7 - 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

Controls and Governance

In respect to the Sal di Vida and Mt Cattlin Project (31/12/2014 estimate) the Company engaged independent consultants to prepare the mineral resource and reserve estimates.

In the course of doing so the consultants have:

- Reviewed Galaxy's assay and QAQC data.
- Generated electronic models that represent the interpreted geology, mineralisation and oxidation profiles based on drilling and geological information supplied by Galaxy.
- Complete statistical analysis and variography for economic elements.
- Estimated grades of economic elements using ordinary kriging and completed model validity checks.
- Classified the Mineral Resource estimate in accordance with the 2004 edition of the JORC Code.
- Reported the estimates and compiled supporting documentation in accordance with the 2004 edition of the JORC Code

This Mineral Resource Estimate at the James Bay project was current at the time Galaxy acquired the project and no further estimation work has taken place since the acquisition of the project.

The MT Cattlin Project Mineral Resources and Reserves estimates as at 31/12/2015 are extracted from the report entitled "Mt Cattlin Update: Revised Resource & Reserve Statement" created on 4 August 2015 published by General Mining Limited (ASX: GMM) which is available to view on www.asx.com.au. This report sets out the procedures undertaken in the preparation of the estimates.

Competent Persons Statements

Sal de Vida Project

The information in this document that relates to Mineral Resources and Reserves for the Sal de Vida project has been compiled by Mr Michael Rosko. Mr Rosko 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 of the activity that he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code. Mr Rosko consents to the inclusion in this document of the matters based on his information in the form and context in which it appears. This information was prepared and first disclosed under the JORC Code 2004. It has been not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

James Bay Project

The information in this report that relates to Mineral Resources at the James Bay Project 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 Project**2015 Resource and Reserve Estimates**

The information in this report that relates to the estimation and reporting of the Mt Cattlin Project Mineral Resources and Mineral Reserves is extracted from the report entitled "Mt Cattlin Update: Revised Resource & Reserve Statement" created on 4 August 2015 published by General Mining Limited (ASX: GMM) which is available to view on www.asx.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement made by GMM. The Company understands that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

2014 Resource and Reserve Estimates

The information in this report that relates to Mineral Resources for the Mt Catlin Project is based on information compiled by Mr Robert Spiers who at the time the Mineral Resource Estimates were undertaken was a full time employee of H&S Consultants. Mr Spiers has 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 consents to the inclusion in the report of the matters based on information in the form and context in which it appears. This information was prepared and first disclosed under the JORC Code 2004. As at 30 June 2014 it been not been updated to comply with JORC Code 2012 on the basis that the information had not materially changed since it was previously reported.

The information in this report that relates to Mineral Ore Resources at the Mt Catlin Project 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. This information was prepared and first disclosed under the JORC Code 2004. It has been not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was previously reported.