

Galaxy Resources Limited

# ANNUAL REPORT

YEAR ENDED 31 DECEMBER 2018



GALAXY

# CORPORATE DIRECTORY

## Board of Directors

Mr Martin Rowley (Independent Non-Executive Chairman)  
Mr Anthony Tse (Managing Director and Chief Executive Officer)  
Mr Peter Bacchus (Independent Non-Executive Director)  
Mr John Turner (Independent Non-Executive Director)  
Ms Florencia Heredia (Independent Non-Executive Director)  
Mr Alan Fitzpatrick (Independent Non-Executive Director)

## Chief Financial Officer

Mr Alan Rule

## Company Secretary

Mr John Sanders

## Registered Office and Principal Place of Business

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Applecross  
Western Australia 6153  
Australia

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Fax: + 61 8 9215 1799  
Emails: reception@gxy.com (General Enquiries)  
Info: info@gxy.com (Investor Relations and Media Enquiries)  
Website: www.gxy.com

## Legal Advisers

### Australia:

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Level 4, The Read Buildings  
16 Milligan Street  
Perth Western Australia 6000  
Australia

### Argentina:

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Piso 11, C1006ACT, Buenos Aires  
Argentina

### Canada:

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The Stock Exchange Tower  
800 Victoria Square, Suite 3700  
Montréal Quebec H4Z 1E9  
Canada

## Share Registry

Computershare Investor Services Pty Limited  
Level 11, 172 St Georges Terrace  
Perth Western Australia 6000  
Australia

Phone: 1300 850 505  
Phone: +(61 3) 9415 4000 (International)  
Website: www.computershare.com.au  
Investor Centre: www.investorcentre.com

## Auditors

PricewaterhouseCoopers  
Level 15, 125 St Georges Terrace  
Perth Western Australia 6000  
Australia

**Australian Business Number**  
11 071 976 442

**Stock Exchange Listing**  
ASX Code: GXY

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# CHAIRMAN'S LETTER



**"As Chairman of Galaxy Resources Limited, I am very pleased to present the Annual Report for the twelve months ended 31 December 2018. 2018 saw us successfully advance our strategy to be a leading global supplier of high-quality lithium products."**

**Martin Rowley**  
Chairman

In Q1 2018, Galaxy's classification on the ASX changed from a mining exploration entity to a mining producing entity. Last financial year I reported we were in the strongest financial position in the history of the Company and I am proud to say that we remain uniquely placed in our industry with an extremely strong balance sheet with cash on hand at the end of February of US\$273 million (after receipt of the POSCO transaction proceeds) and zero debt. This, combined with our world class hard rock and brine lithium assets in multiple locations globally, gives us the flexibility to react to dynamic market conditions quickly and responsibly.

We remain absolutely committed to unlocking and creating superior returns for shareholders from our existing assets together with suitable acquisition opportunities if and when they arise. We also remain committed to upholding the highest standards of operational excellence and corporate social responsibility across our three global locations in Australia, Argentina and Canada.

The Company's Mt Cattlin operation in Ravensthorpe, Western Australia produced 156,689 tonnes of lithium concentrate in 2018 and completed 11 shipments for a total of 159,255 tonnes to customers in Asia. EBITDA for the year was US\$58.1 million (excluding the gain associated with the POSCO transaction) which included a US\$70.5 million contribution from Mt Cattlin and positioned the Company as one of 2018's top lithium product producers.

During 2018 a number of new lithium projects, particularly in the hard rock sector, have commenced production. Throughout the greater part of 2017 and 2018, Galaxy was fortunate that Mt Cattlin was already in production and therefore able to take advantage of record prices for its product. The price for Mt Cattlin product in 2019 will be lower than 2018. Factors influencing price include new supply into the market and delays in demand primarily caused by implementation of more stringent environmental regulatory compliance requirements impacting completion of downstream converter facilities in China. Therefore, it is a function of the lithium industry maturing that the super margins on Mt Cattlin product that Galaxy has enjoyed by being an early entrant to the market will now come back to more sustainable levels.

After commissioning of the Mt Cattlin plant upgrades in Q4 2018, the focus is now on improving operational efficiencies and reducing unit costs so strong margins are maintained. Galaxy is guiding production of 180,000 to 210,000 tonnes of lithium concentrate for 2019. We have a strong and loyal customer base secured with multi-year agreements and continue to deliver a reliable and consistent product to these customers. During 2019, there will also be a continued focus on extending the mine life at Mt Cattlin through targeted regional exploration. In 2018 Galaxy acquired a number of near mine tenements and an extensive exploration program is planned on these areas in 2019. 2018 proved successful with an increase in the total Mineral Resource at Mt Cattlin to 16.7Mt and Ore Reserves to 10.7Mt.

Throughout the year we have also continued the advancement of our two world class development assets, the Sal de Vida brine project in Argentina ("SDV") and the James Bay spodumene project in Quebec, Canada. The SDV lithium project located on the Salar del Hombre Muerto in northwest Argentina is globally recognised as one of the world's largest and highest quality, undeveloped brine deposits offering us an excellent development opportunity. During the first half of 2018, Galaxy announced an updated Feasibility Study for the project confirming a technically superior, highly profitable, long-life, low cost lithium and potash project. Annual production, in the study, of lithium carbonate equivalent ("LCE") is forecast to be 25,000t.

Throughout 2018, Galaxy successfully negotiated a binding agreement with POSCO to sell a package of tenements located on the northern area of the Salar del Hombre Muerto in Argentina for a cash consideration of US\$280 million. In late November 2018, the final tenement transfer deeds relating to this sale were executed with POSCO. Transfer registration was finalized in February 2019 and a total of US\$271.6 million (after deducting Argentinian withholding taxes) was released to Galaxy. Galaxy and POSCO will now co-operate to maximize potential development, operational, infrastructure and logistical synergies. The cash generated from this transaction is now available for the continuing development of the SDV project.

A highly experienced Project Director has now been appointed to lead the development of SDV. The SDV project team has been further bolstered with the appointment of several specialists in the fields of process engineering, permitting and government and stakeholder relations. Additionally, an independent process advisory committee has been formed to oversee the current test work program being conducted to establish the most economical process route and ensure there is maximum flexibility with the lithium chemicals that SDV produces. This flexibility will allow the Company to adapt to different technologies developed by the battery market in order to meet the demands of the rapidly growing electric vehicle ("EV") market.

We are still in discussion with a number of short listed parties interested in participating in the development of SDV. However, as stated in my Chairman's letter to shareholders last year, any third party investment decision must recognize true value for SDV and any third party participant must add something to the project (intangible or otherwise) that can be readily translated into benefits for Galaxy shareholders and other direct stakeholders.

Following a successful exploration program at James Bay, this project now boasts a significant resource base of 40.3Mt @ 1.40% Li<sub>2</sub>O. Through to December 2018 the site continued pre-work engineering by Hydro-Quebec involving the design and construction of a powerline and connection infrastructure for future power supply to the project. Galaxy's Environmental and Social Impact Assessment ("ESIA") was submitted in October 2018. We continue to work closely with the Cree Nation of Eastmain, the Grand Council of the Cree and the Cree Nation Government. A Pre-Development Agreement ("PDA") has been signed with the Cree which is reflective of the very strong and supportive relationship that has been developed with the Cree.



The strategy for the James Bay project continues to be the development of an upstream hard rock extraction and processing facility together with a downstream conversion plant in North America to produce battery grade lithium carbonate and /or lithium hydroxide for the global market.

The lithium business remains strong with a very exciting future. The trend in vehicle electrification, together with the exponential growth in battery storage, is expected to drive significant growth in the demand for lithium products for at least the next decade. Roskill Consulting Group Limited ("Roskill") are forecasting that EV sales worldwide will grow at a 32% compound annual growth rate ("CAGR") through 2027 reaching 19.6 million vehicles in annual sales volumes. Bloomberg New Energy Finance predict EV sales to reach 60.2 million units in 2040, representing a penetration rate of 55% of all new vehicles sold annually. Roskill expects the annual demand for battery grade lithium compounds to reach 878,000 tonnes by 2027 representing a CAGR for the 10 years from 2017 of 15.3%. Demand from EV batteries is expected to represent 64% of the total consumption of lithium compounds by 2027.

Structural changes in the electrification of transportation and continued policy and regulatory support is accelerating investment all the way along the lithium value chain. Significant barriers remain to new entry into the battery grade lithium market. These include major supply side challenges for new projects with long planning, construction, commissioning and qualification and the capital availability to finance these projects (estimated at US\$12 billion of investment required).

Galaxy has established strong relationships with reliable customers for its Mt Cattlin production. These customers have confirmed that Mt Cattlin material meets their evolving performance and quality requirements and, as they expand their conversion capacity, their technical specifications will be based on continuing to receive Mt Cattlin product. We remain very confident in the lithium business model and the business case for the development of both Sal de Vida and James Bay as fully integrated projects with the aim that within the next 5 years Galaxy will be producing 100,000 tonnes per annum of lithium carbonate equivalent from our existing projects alone.



Safety and sustainability are core values in our business. We supply minerals that power innovation and the future. It is both humbling and inspiring to know that for Galaxy there is such potential to contribute in a meaningful way to how the modern world uses energy. At all levels of our organization there is a willingness to make purposeful decisions through a lens focused on our wider impact. The lives and wellbeing of Galaxy's global workforce, the acceptance of the ways in which we operate, our broader contributions to the communities we operate in and our role as a protector of the environments where our operations are located underscore the vital importance of our strong commitment to sustainable growth and development for the Company into the future.

In January 2019, we welcomed a new Board appointment, Mr. Alan Fitzpatrick whose experience includes the role of Director Global Projects Engineering and Construction for Newmont, Project Director on Newmont's US\$1.8 Billion Batu Hijau project in Indonesia, Project Manager for Phase III of BHP's Escondida copper project expansion and Principal Consultant for the US\$7 Billion Las Bambas project in Peru. We are very excited to have been able to add his 45 years of technical experience in the mining industry to what I consider is a Board with an excellent mix of skills, acumen and experience.

In closing, I'd also like to extend my thanks and gratitude to our senior executive management team who have tirelessly worked to enhance our internal expertise and establish the core team for the development and implementation of Galaxy's ongoing expansion strategy. Our commitment to deliver operational excellence must be in tandem with the efforts to build a culture that promotes innovation, supports the safety and wellbeing of our employees, partners and clients and brings value to the regions in which we operate.

I have a strong sense of optimism and excitement about the future. I am excited about our positive impact on technological advancement and am inspired about our potential game-changing impact on business innovation and the opportunity to make a difference in the lives of people around the world as we Power the Future.

**Martin Rowley**  
Chairman  
April 2019

# GALAXY AT A GLANCE



Galaxy Resources Limited ("Galaxy" or the "Company") is an ASX-listed global lithium company with existing production and robust cash flow from its lithium concentrate operation at Mt Cattlin in Australia. Galaxy boasts a strong balance sheet and financial position, as well as a world-class project development pipeline with its Sal de Vida project in Argentina and James Bay project in Canada.

Galaxy is an ASX-200 constituent company with a diverse asset portfolio consisting of lithium projects in both the hard rock and brine categories across Australia, Argentina and Canada.

The global Mineral Resource base of Galaxy totals 6.85Mt lithium carbonate equivalent ("LCE"), with Ore Reserves of 1.44Mt LCE, across its three projects globally.

The Company's operations are spearheaded by its Mt Cattlin project, a spodumene mine and concentration operation located in Ravensthorpe, Western Australia. In 2018, Galaxy's Mt Cattlin project produced 156,689 tonnes of lithium concentrate, generating US\$70.5 million of EBITDA at the asset level. Robust free cash flow from this project underpins the strengthening financial position of the Company and will continue to underwrite the future development of Galaxy's broader project portfolio.

In addition, Galaxy continues to advance work on its two world-class development assets, namely the Sal de Vida lithium brine project in Catamarca, Argentina and the James Bay hard rock project in Quebec, Canada.

JAMES BAY, QUEBEC, CANADA

HARD ROCK

SAL DE VIDA, CATAMARCA,  
ARGENTINA

BRINE



AS ONE OF THE LEADING GLOBAL PRODUCERS OF LITHIUM RAW MATERIALS IN 2018, GALAXY CONTINUES TO EXECUTE ON ITS CORE GROWTH STRATEGY OF BUILDING AND STRENGTHENING THE COMPANY'S MARKET POSITION IN THE LITHIUM SECTOR, WITH THE PRIMARY OBJECTIVE OF ENHANCING AND UNLOCKING VALUE FOR ITS SHAREHOLDERS.



MT CATTLIN,  
WESTERN AUSTRALIA

HARD ROCK

# KEY HIGHLIGHTS



## FINANCIAL PERFORMANCE



Revenue:

**US\$153.9m**

60% increase on FY2017<sup>1</sup>

Cash Margin:

**US\$424/dmt sold**

23% increase on FY2017

EBITDA<sup>2</sup> (ex. POSCO):

**US\$58.1m<sup>3</sup>**

90% increase on FY2017<sup>1</sup>

Realized Average Selling Price:

**US\$927/dmt sold**

18% increase on FY2017

1. Proceeds from the sale of spodumene and costs incurred before commercial production was called in May 2017 were not recognized in the Statement of Income for FY2017
2. Non-IFRS financial information that has not been subject to audit by Galaxy's external auditors
3. Excluding gain associated with sale of Northern tenement package in the Salar del Hombre Muerto to POSCO

A wide-angle photograph of a construction or mining site under a clear blue sky. In the foreground, a yellow wheel loader is positioned on the left, facing right. Behind it, another piece of heavy machinery, possibly a backhoe or excavator, is partially visible on the right. The ground appears to be dry earth or dirt. In the far distance, low hills or mountains are visible.

## CORPORATE

A white icon of a document with three horizontal lines inside, enclosed in a thin black border.

Cash: (as at 31 Dec 2018)

**US\$24.8m**

Debt: (as at 31 Dec 2018)

**Nil**

Funds Raised in 2018:

**US\$280m**

Via the tenement sale in northern  
Salar del Hombre Muerto

Net cash received of US\$271.6m in Q1 FY2019  
being US\$280m less withholding tax paid

Earnings Per Share:

**36.87 cps (USD)**

Basic income per share on an undiluted basis  
Net profit after tax was inclusive of a gain on sale  
of exploration and evaluation assets, resulting  
from the POSCO transaction

A light blue icon showing a circular arrow with two arrows pointing in opposite directions, enclosed in a thin black border.

## OPERATIONAL PERFORMANCE

**2nd full year**  
of spodumene production

Lithium Concentrate Produced:

**156,689 dmt**

Lithium Concentrate Sold:

**159,255 dmt**

Average product grade: 5.76% Li<sub>2</sub>O

Mt Cattlin Reserves Increased to:

**10.7mt @  
1.15% Li<sub>2</sub>O**

And Resources:  
**16.7mt @ 1.28% Li<sub>2</sub>O**

## 2018 HIGHLIGHTS



Lithium Concentrate Sold:

**159,255 dmt**

Average product grade:  
5.76% Li<sub>2</sub>O

Revenue:

**US\$153.9m**

60% increase on FY2017<sup>1</sup>

Mt Cattlin EBITDA<sup>2</sup>:

**US\$70.5m**

52% increase on FY2017

Change in Mineral Resources:

**Increase of 42%**<sup>3</sup>

to 16.7 million tonnes  
@ 1.28% Li<sub>2</sub>O

Change in Ore Reserves:

**Increase of 40%**<sup>3</sup>

to 10.7 million tonnes  
@ 1.15% Li<sub>2</sub>O

## MT CATTLIN



The Mt Cattlin project ("Mt Cattlin") is 100% owned by Galaxy. Production at Mt Cattlin recommenced in Q4 of 2016 and has now passed the two-year mark since the restart of operations. Mt Cattlin is located two kilometres from Ravensthorpe in Western Australia.

The operation involves open-pit mining of a relatively flat-lying pegmatite orebody, carried out using excavator and truck operations, delivering ore product to the run-of-mine (ROM) before it is fed into a conventional crushing and dense medium separation ("DMS") gravity recovery circuit. The crushing plant consists of a 3-stage crushing circuit producing a 14mm material that is fed into the processing plant on a continuous 24-hour cycle. The final product is concentrated and recovered via gravity within a DMS circuit. A small quantity of tantalum concentrate is also produced as a by-product. The final lithium concentrate product, grading 5.7-6.0% Li<sub>2</sub>O, is stacked, drained and prepared for transportation to the Esperance Port, where it is loaded and shipped to Galaxy's customers in Asia.

1. Proceeds from the sale of spodumene and costs incurred before commercial production was called in May 2017 were not recognized in the Statement of Income for FY2017

2. Non-IFRS financial information that has not been subject to audit by Galaxy's external auditors

3. Compared with equivalent estimation at 30 June 2018 and 31 Dec 2017 for Resources and Reserves respectively

## MT CATTIN HAS BEEN OPERATIONAL FOR 2 YEARS WITH A TOTAL OF 11 SHIPMENTS COMPLETED DURING FY2018, ALL WITHIN THE GRADE AND IMPURITY SPECIFICATION LIMITS ESTABLISHED WITH CUSTOMERS.

In 2018, 1.78 million wet metric tonnes ("wmt") of ore was mined and 1.70 million wmt processed at an average head grade of 1.08% Li<sub>2</sub>O. Overall processing recovery was 50%, resulting in the production of 156,689 dry metric tonnes ("dmt") of lithium concentrate.

Mining grades and processing recoveries achieved in 2018, particularly in the second half of the year, were unfavourably impacted by delays in permit approvals required to mine in the areas east of Floater Road. This resulted in a large portion of ore being mined from the 2-South-West pit. Lower ore grades from that zone, as well as the fractured nature of the ore, had an unfavourable impact on the head grade and quality of ore treated at the plant, as well as poorer product liberation and recovery through the processing plant.

A total of 159,255 dmt was sold during the course of 2018 with an average product grade of 5.76%.

Reported cash cost per tonne sold was US\$411/dmt for the year. Production unit costs were unfavourably impacted by larger mining volumes, higher than expected operating costs as a result of lower plant utilization from tie-in shutdowns and slower than anticipated commissioning associated with plant upgrades.

These were partially offset favourably by the devaluation of the Australian dollar against the US dollar.

The Mt Cattlin operation achieved a number of positive developments throughout the year with the completion of construction for new circuits relating to the Yield Optimization Program ("YOP") and substantial upgrades to the Mineral Resource and Ore Reserve. Commissioning of the new YOP circuits and equipment, consisting of an

ultra-fines DMS circuit, a secondary floats re-crush circuit, optical sorting and wet high intensity magnetic separation (WHIMS) units is completed with optimisation underway. These plant improvements are expected to improve process recoveries, enhance product quality and ultimately result in increasing production output and reduced unit costs. Initial improvements are expected to be realized starting towards the latter part of Q1 through to Q2 in 2019.

Subsequent to the 2018 year end, with the completion of a substantial infill and exploration drilling campaign in 2018, the classified Mt Cattlin Mineral Resource was upgraded by 42% and the Ore Reserves also upgraded 40% as at 31 December 2018.

With mining operations now successfully extended to the east of Floater Road and the completion of the YOP, the Company expects an improvement in head grade and overall plant recovery during 2019. Unit operating costs are also expected to rationalize during the course of 2019 as the operational benefits flow through from the newly-added YOP circuits, as well as the projected increase in production volumes.

## HIGHLIGHTS



Sal de Vida



**Long life,  
low cost asset**

**4.92mt**

in defined Mineral  
Resource and

**1.14mt**

in defined Ore Reserves

Average lithium grade of  
732mg/L and some of the  
lowest levels of impurities

Substantial funding secured  
following the settlement of  
the POSCO Transaction

## SAL DE VIDA

The Sal de Vida project ("SDV") is located on the Salar del Hombre Muerto in the Puna region of the Central Andean Plateau in northwest Argentina, adjacent to Livent's Fenix operation which has been in production for over 20 years.

SDV is located within the region described as the "lithium triangle," which comprises approximately 40% of the world's total production of lithium chemicals as of 2018. The altitude of the Salar is approximately 4,000 metres above sea level and the project is accessible from the provincial capitals of Catamarca and Salta via all-seasons roads.

The project has a JORC-compliant Ore Reserve of 1.14 million tonnes of lithium carbonate equivalent ("LCE") and 4.20 million tonnes of potassium chloride ("potash" or "KCl") equivalent which supports a long project life of 40 years under the current project definition. Substantial project expansion upside is identifiable by the magnitude of Sal de Vida's Mineral Resource (4.92 million tonnes of LCE and 19.21 million tonnes of potash). SDV's brine chemistry is one of the most superior in Argentina given the high concentration of lithium and low levels of dissolved impurities. The average lithium grade defined at SDV is 732mg/L and the magnesium to lithium ratio is below 2.5.

In August 2018, Galaxy entered into an agreement with POSCO to sell a package of tenements located in the northern area of the Salar del Hombre Muerto for total consideration of US\$280 million ("POSCO Transaction"). In December 2018, the final tenement transfer deeds of sale were executed between the parties and the registration process was finalized in February 2019.

# THE SAL DE VIDA PROJECT IS ONE OF THE LARGEST AND HIGHEST QUALITY UNDEVELOPED LITHIUM BRINE ASSETS IN THE WORLD WITH SIGNIFICANT EXPANSION POTENTIAL.

The net proceeds received by Galaxy for the POSCO Transaction were US\$271.6 million (US\$280 million less the withholding tax of US\$8.4 million).

Settlement funds from the POSCO Transaction significantly de-risks SDV from a funding perspective as it covers a substantial portion of the project's estimated pre-production capital cost. In addition, and as part of the Company's project financing initiatives, Galaxy appointed JP Morgan as a financial advisor to assist in evaluating potential strategic partnership and/or offtake opportunities for SDV.

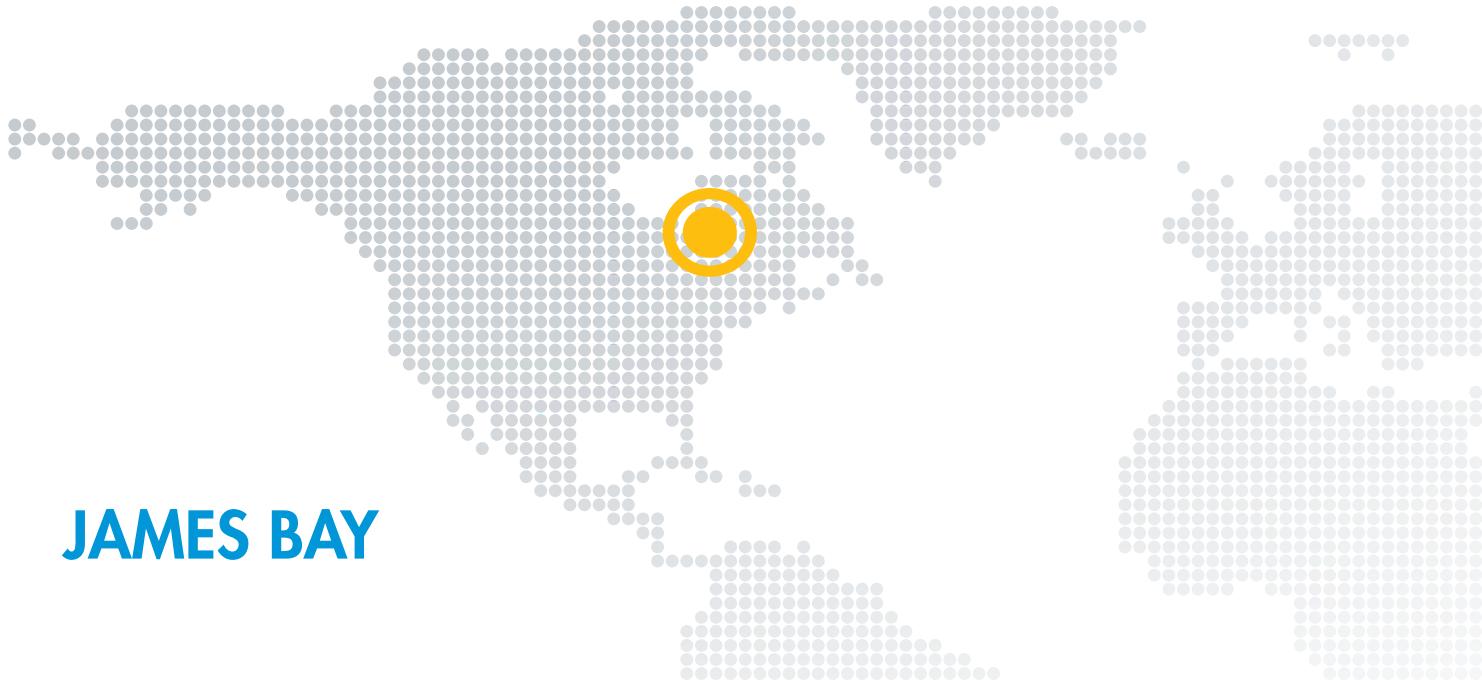
Ongoing field activities include continued exploration drilling, with the target objective of enhancing the Company's understanding of the hydrogeological nature of the basin and hydraulic behaviour of the brine at depth. Drilling results and aquifer testing information are ultimately expected to lead to a recalibration of both the project resource and numerical flow (reserve) models.

Value engineering studies were initiated in Q4 of 2018 and have been primarily focused on identifying potential capital reduction opportunities, as well as advancing project engineering to the detail required to prepare and commission bid packages for detailed engineering. A detailed geotechnical survey has been well advanced and will form the foundation of engineering input to civil works, most notably for the construction of the evaporation ponds and the precise location of the process plant. Further value engineering analysis, including energy generation options, water supply and offtsite pre-cast and pre-assembly options will be advanced in 2019.

As part of Galaxy's continuous product validation and process optimization strategy, the project team is currently undertaking two concurrent streams of test work activities. Work has commenced to prove up and fine tune each unit process in the existing process flowsheet (incorporating solar evaporation ponds) to produce a battery-grade lithium carbonate, as well as identify the most optimal process pathway to also be able to produce lithium hydroxide. Semi-continuous pilot operations are also underway at the onsite batching facility. Construction of a 15-hectare demonstration pond has also commenced with earthworks approximately 50% complete as at the end of 2018. An additional test work program is also underway to assess alternative processing technologies utilizing several non-conventional technologies. To assist this work program, an independent process and technical advisory committee has been established and comprises industry experts and veterans, with prior experience advising FMC, Rockwood and Tianqi, as well as senior Galaxy representatives.

A major step towards establishing our local base of operations has been achieved, with a lease signed for a new corporate office located in Catamarca which will act as the headquarters for the SDV project team. Completion of construction and fit-out of the new office is targeted for Q2 of 2019.

As part of its continued community relations efforts, the SDV team organized a series of training sessions for local providers residing at different satellite cities in Catamarca Province, such as Antofagasta de la Sierra and Belen. The laboratory operations training program, which has been developed in partnership with the Catamarca University and Alex Stuart Assayers, now has a range of classes being offered on campus at the University. The primary objective is the training and up-skilling of potential future personnel for the project.



## JAMES BAY

The James Bay project ("James Bay") is located in the Nord-du-Quebec administrative region in Quebec Province, Canada and is approximately 10km south of the Eastmain River, and 100km east of James Bay and the Eastmain Cree community.

The proximity of the project to local infrastructure, including accessible road networks, a nearby airstrip, water and power, as well as the low cost of electricity in the region, are all natural advantages and key to project development.

The project comprises five sets of claim blocks with a classified Mineral Resource of 40.3Mt @ 1.40% Li<sub>2</sub>O, 100% classified as Indicated (JORC 2012). The deposit comprises several swarms of pegmatite dykes that outcrop at surface. The pegmatite outcrops form a discontinuous corridor approximately 4 kilometres long and 300 metres wide. Resource modelling completed to date indicates that the resource is amenable to open-pit mining with spodumene crystals that are relatively coarse, usually >5 centimetres in length, sometimes exceeding 1 metre.

Project permitting and study work was advanced during the course of 2018, as was a program of sterilization, geotechnical and hydrogeological drilling. Results were used to advance feasibility study engineering work related to geology, mining plan, process plant and site infrastructure design.

Following the completion of a preliminary scoping study, Hydro-Quebec commenced "Pre-Work" engineering on the design and construction of a 7 kilometre spur line and connection infrastructure to connect the James Bay project into their existing power infrastructure within the region.

Phase 2 test work in relation to the upstream component of the project continued throughout the second half of 2018. This test work is focused on confirming and optimizing the upstream flow sheet design for the James Bay orebody, while adopting learnings and experience from operating the Mt Cattlin plant. This program was approximately 50% complete at the end of the reporting period.

Preliminary metallurgical test work related to a conventional downstream processing flowsheet was advanced during 2018. In parallel, site location investigation for a potential downstream facility and engagement with various local Economic Development Organizations was also undertaken.

# THE JAMES BAY PROJECT IS A HIGH GRADE, SHALLOW HARD ROCK RESOURCE PROVIDING FOR STRONG FUTURE EXPANSION POTENTIAL WITHIN GALAXY'S PORTFOLIO.

A competitive bid process to select engineering firms and specialized consultants to undertake the combined feasibility study to integrate a downstream conversion facility into the project design was completed in Q4 of 2018.

The project's Environmental and Social Impact Assessment ("ESIA") was completed and submitted to the relevant local government agencies for evaluation in October 2018. Communications, exchanges and meetings regarding the ESIA have commenced with key stakeholders, including federal and provincial governments and the Cree Nation local community and administrative authorities.

Comprehensive and frequent engagement with the Cree Nation of Eastmain was undertaken during the course of the year including discussions around finalizing a Pre-Development Agreement. Galaxy will now seek to advance the commercial arrangement into a binding Impact and Benefit Agreement.

## HIGHLIGHTS



### Indicated Mineral Resource:

**40.3mt  
at 1.4% Li<sub>2</sub>O**

Close proximity to key local infrastructure and cheap power supply

Environmental and Social Impact Assessment submitted in October 2018

Pre-Development Agreement signed in March 2019

# BOARD OF DIRECTORS



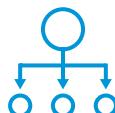
Galaxy's Board is comprised of Independent Non-Executive Chairman - Martin Rowley, Managing Director and Chief Executive Officer - Anthony Tse and four Independent Non-Executive Directors.

The Board's collective experience brings together high level, senior management expertise across a diverse industry base ranging from mining, technology, investment banking, construction, engineering and law. The Board's scope of experience offers Galaxy global cross-sector insights, strategic counsel and the executive leadership required to steer the Company to future success.





# GOVERNANCE



Galaxy's Corporate Governance Statement discloses the extent to which the Company has followed the recommendations contained in the 3rd edition of the ASX Corporate Governance Principles and Recommendations.

The statement details Galaxy's corporate governance practices and can be viewed on the Company's website at [www.gxy.com/about/Corporate\\_Governance.htm](http://www.gxy.com/about/Corporate_Governance.htm). Copies of the charters and policies listed below are also available in the corporate governance section of the Company's website.

## Board

**Mr Martin Rowley**  
(Independent  
Non-Executive Chairman)

**Mr Anthony Tse**  
(Managing Director &  
Chief Executive Officer)

**Mr Peter Bacchus**  
(Independent  
Non-Executive Director)

**Mr John Turner**  
(Independent  
Non-Executive Director)

**Ms Florencia Heredia**  
(Independent  
Non-Executive Director)

**Mr Alan Fitzpatrick**  
(Independent  
Non-Executive Director)

## Board Committees

- ◆ Audit & Risk Committee
- ◆ Remuneration & Nomination Committee
- ◆ Health, Safety, Environment & Community Committee

## Charters

- ◆ Board Charter
- ◆ Audit & Risk Committee Charter
- ◆ Remuneration & Nomination Committee Charter
- ◆ Health, Safety, Environment & Community Committee Charter

## Key Corporate Governance Policies

- ◆ Anti-Bribery & Corruption Policy
- ◆ Continuous Disclosure Policy
- ◆ Corporate Code of Conduct Policy
- ◆ Directors' Code of Conduct Policy
- ◆ Diversity Policy
- ◆ Environmental Policy
- ◆ Equal Employment Opportunity & Harassment Policy
- ◆ Fitness for Work Policy
- ◆ Health and Safety Policy
- ◆ Quality Policy
- ◆ Risk Management Policy
- ◆ Share Trading Policy
- ◆ Whistleblowing Policy

# HEALTH, SAFETY, ENVIRONMENT & COMMUNITY



Galaxy continued its commitment across all areas of health, safety, environment and the community throughout 2018. During the reporting period the Company established a Health, Safety, Environment and Community Committee to assist the Board in its oversight and review of health, safety, environmental and community ("HSEC") responsibilities.

The Committee's charter requires it to:

- ◆ oversee the implementation of risk management systems, policies and activities that ensure the health and safety of all Galaxy personnel and minimise the impact of Galaxy activities on the environment;
- ◆ monitor Galaxy's responsibilities and commitments to social issues such as human rights; and
- ◆ review Galaxy's response on issues of HSEC concern or non-compliance.

Throughout 2018, Galaxy had a strong focus on reporting and has developed and implemented health and safety standards across its operations and projects in Australia, Argentina and Canada. The implementation of a single corporate standard for performance reporting and measurement has resulted in greater transparency in Galaxy's operational reporting.

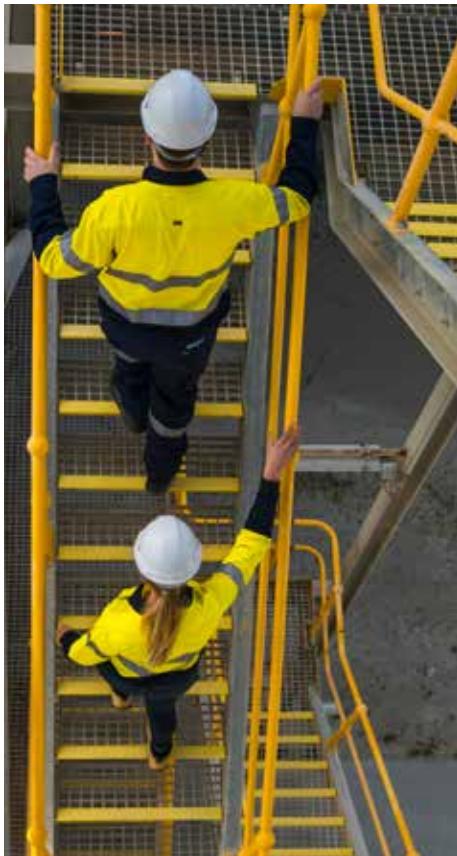
The Company's HSEC management system provides each HSEC area with a set of approved standards against which to carry out and measure its activities.





## HEALTH & SAFETY

Galaxy is fully committed to the health and safety of individuals who may be impacted by its activities.



Galaxy promotes a culture in which safety is an integral part of its business activities by:

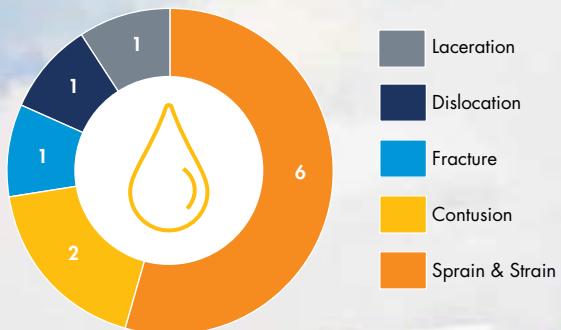
- ◆ consulting employees in regard to safety initiatives and accident prevention measures;
- ◆ delivering induction training and on-going instruction to ensure that all personnel understand their responsibilities and Galaxy's expectations for working safely;
- ◆ providing and maintaining safe systems of work which ensure that hazards are identified and controlled; and
- ◆ monitoring safe work practices to ensure continual compliance.

Further efforts around safety performance reporting are now focused on building capacity and defining positive performance metrics, including indicators that best correlate to the welfare of Galaxy personnel and its communities.

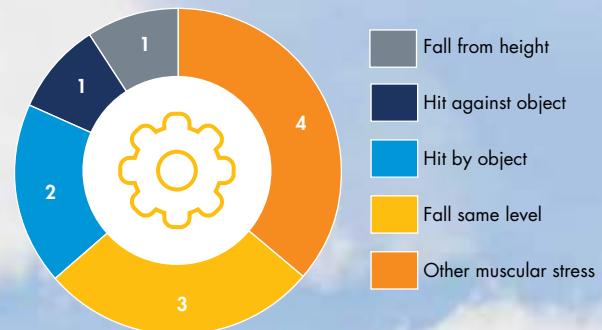
Galaxy strives to achieve an injury-free workplace. Its safe systems of work are continually developed, implemented and reviewed with the goal being to successfully prevent all injuries and work-related illnesses sustained by employees and other personnel, directly or indirectly involved with the Company.

Safety Performance Reporting	2018	2017
Exposure Hours	850,188	511,774
Av. Daily No. of Personnel on site	247	152
Lost Time Injury Frequency Rate (LTIFR)	1.18	0.00
Total Recordable Injury Frequency Rate (TRIFR)	12.94	25.40
All Injury Frequency Rate (AIIFR)	58.81	78.16
Fatalities	0	0
Lost Time Injuries	1	0
Restricted Work Injuries	10	8
Medical Treatment Injuries	0	5
First Aid Injuries	39	27
All Injuries	50	40

Recordable Injuries by Nature in 2018



Recordable Injuries by Mechanism in 2018





## OUR PEOPLE

Galaxy greatly values its people and recognises that their contributions underpin the Company's growth and success. Galaxy is committed to providing career and development opportunities for all of its staff.

In 2018, the Company's workforce continued to grow across its portfolio of assets. Galaxy employs over 150 people across its three sites and has experienced a 40.5% increase in staff numbers since 2017. The percentage of females employed by Galaxy at the end of 2018 increased by 53% compared with 2017.

In its Equal Employment Opportunity and Harassment Policy, Galaxy commits to providing a workplace free of discrimination and harassment. This applies to all persons regardless of gender, sexual orientation, family status, pregnancy, family responsibilities, race, impairment, political or religious conviction, age and gender history.

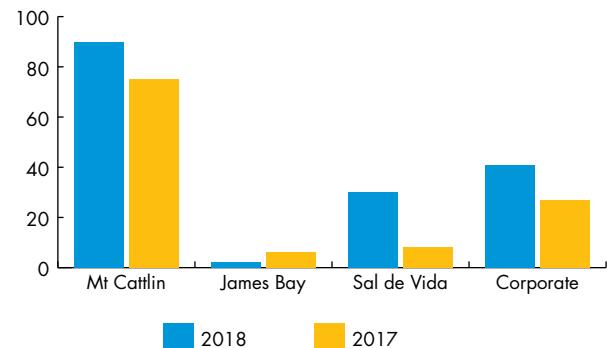


Compared at 31 Dec 2017 and 2018

**40.5%**

Workforce growth

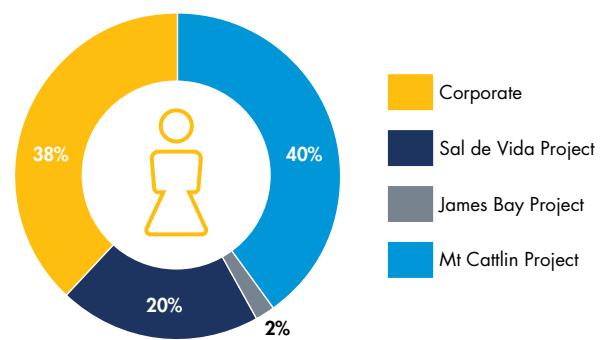
### Total Workforce



**53%**

Female employment growth

### Female Workforce



Increased local employees by

**25%**

**71%**

Mt Cattlin staff who are residents in the Ravensthorpe area



## ENVIRONMENT

Galaxy is fully committed to conducting its activities in an environmentally and socially responsible manner. The Company applies systems and standards to ensure compliance with regulatory requirements and community expectations.

- ◆ Environmental requirements are incorporated into all planning processes and overall corporate strategy.
- ◆ Facilities are designed and operated to minimise pollution, reduce energy consumption, use renewable resources where possible and minimise waste.
- ◆ Galaxy respects the cultural heritage of local communities and develops contingency plans for unforeseen events.

Galaxy's Environmental Policy sets out the principles the Company seeks to satisfy in order to minimise the impact its activities have on the environment and in the communities in which it operates.

0

Number of  
materially  
adverse  
environmental  
incidents in  
2018

0

Number of  
regulatory fines  
for environment  
incidents

0

Number of  
regulatory fines  
for heritage  
incidents

**28,343 (t CO<sub>2</sub>e)**

Greenhouse Gas Emissions

**47,149 (GJ)**

Energy Consumed and Produced

Galaxy's Australian operations only. Reported in National Greenhouse and Energy Report Australia for year 2017-2018.





## CORPORATE SOCIAL RESPONSIBILITY

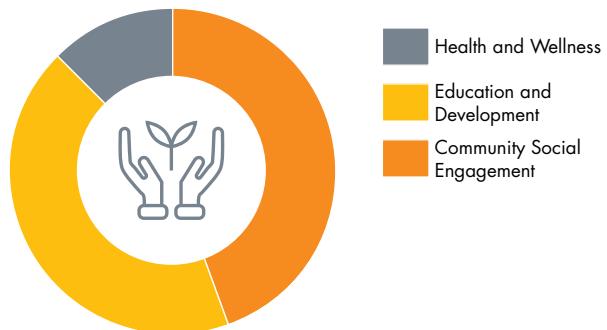
Galaxy embraces Corporate Social Responsibility at all levels within its organisation. While the Company strives to deliver value to shareholders through its activities, it is also firmly committed to delivering lasting value for the local and global communities in which Galaxy operates and therefore looks to conduct its business and operations in a responsible and sustainable manner.

### Mt Cattlin

Mt Cattlin was the first mine site in Australia to have real-time solar tracking panels as part of its power generating requirements. In total, 15 state-of-the-art solar panels were installed, with the ability to track the sun in all directions throughout the course of a day and have the capacity to generate 214 MWh of renewable energy annually and promote savings in CO<sub>2</sub> emissions.

In 2018, Galaxy hosted its annual Mt Cattlin community sponsorship program "Pitch your Project" - an initiative which provides the local community and not-for-profit organisations with an equal opportunity to apply for financial support from the Company to advance their proposed initiatives. Galaxy staff implementing the program met with 50 local stakeholders representing approximately 10% of the region's population. Overall, 28 applications for funding were received and, following an internal assessment, Galaxy provided funding to the local community to support the relevant initiatives.

#### Community Contribution FY18



### James Bay

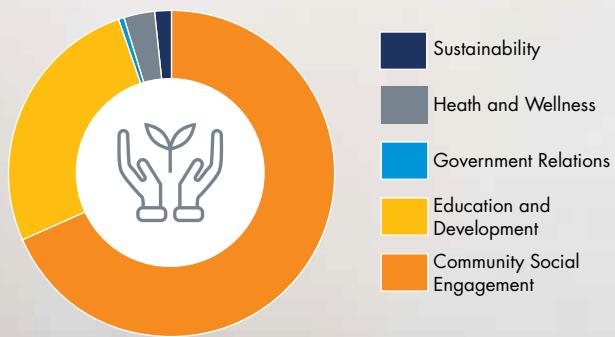
Galaxy is in preliminary discussions with the Cree Nation of Eastmain in northwest Quebec, in relation to an Impact and Benefits Agreement ("IBA"). Once finalised, it is anticipated the IBA will outline a range of initiatives and benefits that will go towards supporting the local James Bay community.

#### Community Contributions FY18



## Sal de Vida

### Community Contributions FY18



The Sal de Vida project is located 80km away from the nearest hospital, meaning that the inhabitants of the neighbouring village at Cienaga Redonda and the surrounding areas do not have easy access to health services and medical support.

To help bridge this gap, the Galaxy Sal de Vida team carries out a program of medical visits with medical professionals to these villages and through this program, the health status of local community members is monitored, with the necessary measures taken if a serious condition is detected. A communications link has also been established with the community to ensure that assistance from the nearby Galaxy Sal de Vida camp site can be requested if required.

Galaxy has also collaborated with local educational institutions and government departments to assist in educating teachers, students and other professionals about the sampling and chemical analysis of lithium brine, water and soil, with a view to allow those individuals a potential opportunity to support the development of the Sal de Vida project.



# DIRECTORS' REPORT



Your Directors present their report on the consolidated financial statements of Galaxy Resources Limited ("Company" or "Galaxy") and the entities it controlled ("Group") during the year ended 31 December 2018.



## DIRECTORS

The following persons were Directors of the Company during the whole of the financial period and up to the date of this report except where indicated:

### Martin Rowley

#### **Chairman, Independent Non-Executive Director**

Mr Rowley was a co-founder of TSX listed First Quantum Minerals Ltd and until June 2017 was that company's Executive Director, Business Development. First Quantum is one of the world's largest copper production companies with a market capitalization over A\$10 billion. He was previously non-executive Chairman and director of Lithium One Inc., which was acquired by the Company 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.

**Current Directorships:** Forsys Metals Corp.

**Past Directorships (last 3 years):** First Quantum Minerals Ltd

### Anthony Tse

#### **Managing Director**

Mr Tse has over 20 years of corporate experience in numerous high-growth industries such as technology, media, and in resources and commodities – primarily in senior management, corporate finance and M&A roles across Greater China and Asia Pacific. His previous management roles include various positions in the STAR Group (News Corporation), the Deputy General Manager of TOM Online, Director of Corporate Development at the TOM Group (CK Hutchison Group), President of China Entertainment Television (a joint venture between TOM and Time Warner), and CEO of CSN Corp.

Appointed Executive Director on 13 October 2010 and was appointed Managing Director on 11 June 2013.

**Current Directorships:** Nil

**Past Directorships (last 3 years):** Nil

### Peter Bacchus

#### **Independent Non-Executive Director**

Mr Bacchus is Chairman and Chief Executive Officer of Bacchus Capital Advisers Ltd, an M&A and merchant banking boutique based in London. Prior to establishing Bacchus Capital, he served as European Head of Investment Banking at US investment bank Jefferies, Global Head of Mining & Metals at Morgan Stanley, and Head of Investment Banking, Industrials and Natural Resources at Citigroup, in Asia and Australia.

Mr Bacchus has over 20 years experience in investment banking with a focus on the global natural resources sector and has, over this period, led a large proportion of the transformational transactions in the industry.

He is a member of the Institute of Chartered Accountants, England & Wales and holds an MA in Economics from Cambridge University, United Kingdom.

Appointed as a Director on 3 January 2017.

**Current Directorships:** Gold Fields Limited, Kenmare Resources plc, chairman of 308 Services, a specialist company operating in the uranium sector

**Past Directorships (last 3 years):** NordGold plc.

## John Turner

### Independent Non-Executive Director

Mr Turner is the leader of Fasken Martineau DuMoulin's Global Mining Group. Fasken Martineau DuMoulin is a leading international business law and litigation firm with eight offices with more than 700 lawyers across Canada, the UK and South Africa.

Mr Turner has been involved in many of the leading corporate finance and merger and acquisition deals in the resources sector primarily through companies active in Africa, Latin America, Eastern Europe, Canada and Australia. Mr Turner has also successfully acted for the financial arranger or sponsor of several global major resource projects.

Mr Turner is a recipient of the Queen's Golden Jubilee Medal for his services in the autism sector.

Appointed as a Director on 3 January 2017.

**Current Directorships:** Nil

**Past Directorships (last 3 years):** Nil

## Alan Fitzpatrick

### Independent Non-Executive Director

Mr Fitzpatrick has more than 45 years of technical mining industry experience in project and construction management, engineering, maintenance and plant operations, including acting as a project director for various major mining companies both locally and internationally. Prior to joining Galaxy, Mr Fitzpatrick held numerous senior positions with leading engineering and mining companies such as Bechtel, BHP, Gold Fields and Newmont Mining Corporation. His experience includes the role of Director Global Projects Engineering and Construction for Newmont, Project Director on Newmont's US\$1.8 billion Batu Hijau project in Indonesia, Project Manager for Phase III of BHP's Escondida copper project expansion and Principal Consultant for the US\$7 billion Las Bambas project in Peru.

Appointed as a Director on 16 January 2019.

**Current Directorships:** Nil

**Past Directorships (last 3 years):** Nil

## Florencia Heredia

### Independent Non-Executive Director

Ms Heredia has more than 25 years of experience in the mining industry and is currently a senior partner of the leading Argentinian legal firm Allende & Brea. She is an expert in mining law with extensive experience advising financial institutions and companies in complex mining transactions in Argentina and has repeatedly represented lenders in all mining project finance arranged in Argentina. The principal focus of Ms Heredia's work is natural resources, infrastructure and environmental law and finance law related to these areas, assisting multiple companies established in Argentina.

Ms Heredia completed her law degree with honors (summa cum laude) from Universidad Católica Argentina in 1991 and completed a Masters degree in Business Law with honors (summa cum laude) from Universidad Austral in 1995. She also has an honors degree (summa cum laude) on corporate sustainability from Instituto de Estudios para la Sustentabilidad Corporativa. She has been a researcher in the Doctorate program of Universidad Austral in the areas of natural resources and environmental law.

Ms Heredia is an active member of the International Bar Association, where she held the position of Chair of the Mining Law Committee (2014-2015) and is currently council member of SEERIL (Section on Energy, Environment, Natural Resources and Infrastructure Law).

Appointed as a Director on 1 January 2018.

**Current Directorships:** Nil

**Past Directorships (last 3 years):** Nil

## Jian-Nan (George) Zhang

### 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.  
Retired on 16 January 2019.

**Current Directorships:** Nil

**Past Directorships (last 3 years):** Nil

## COMPANY SECRETARY

### John Sanders

Mr Sanders holds a Bachelor of Laws with Honours from the University of Western Australia and is a graduate of the Australian Institute of Company Directors. Mr Sanders is a senior corporate lawyer with over 20 years experience, having held legal and commercial roles in top tier law firms and international resource companies. He has a broad range of experience in corporate governance, international mergers and acquisitions, contract negotiation and implementing resource projects. Mr Sanders has previously worked for Herbert Smith Freehills, King and Wood Mallesons in Perth and Clifford Chance in London, as well as acting as senior in-house counsel at Woodside Energy and Hess Exploration Australia.

Appointed as Company Secretary on 11 July 2017.

## 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 Committee Meetings	Remuneration and Nomination Committee Meetings	Health, Safety, Environment and Community Committee Meetings
<b>Number of Meetings Held:</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>1</b>
<b>Number of Meetings Attended (Eligible to Attend):</b>				
Martin Rowley	5 (5)	3 (3)	3 (3)	n/a
Anthony Tse	5 (5)	n/a	n/a	n/a
Jian-Nan Zhang	5 (5)	1 (1)	1 (1)	1 (1)
Peter Bacchus	5 (5)	3 (3)	1 (1)	1 (1)
John Turner	5 (5)	3 (3)	3 (3)	n/a
Florencia Heredia	5 (5)	n/a	2 (2)	1 (1)

### Committee membership

As at the date of this report, the Company had an Audit and Risk Committee, a Remuneration and Nomination Committee and a Health, Safety, Environment and Community Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

Audit and Risk	Remuneration and Nomination	Health, Safety, Environment and Community
Peter Bacchus – Chair	John Turner – Chair	Florencia Heredia – Chair
Martin Rowley	Martin Rowley	Peter Bacchus
John Turner	Florencia Heredia (from 19 March 2018)	Jian-Nan Zhang
Jian-Nan Zhang (to 19 March 2018)	Peter Bacchus (to 19 March 2018)	
	Jian-Nan Zhang (to 19 March 2018)	

## DIRECTORS' INTERESTS IN THE SHARES, RIGHTS AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the rights and options of the Company were unchanged from the holdings as at 31 December 2018 as disclosed in the Remuneration Report. The Directors' interests in the shares of the Company at the date of this report are set out in the table below:

Name	Number of Ordinary Shares
Peter Bacchus	50,182
Alan Fitzpatrick	-
Florencia Heredia	-
Martin Rowley	4,519,346
Anthony Tse	4,743,729
John Turner	25,000

## PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group are:

- ◆ Production of lithium concentrate; and
- ◆ Exploration for minerals in Australia, Canada and Argentina.

There have been no significant changes to the nature of these activities during the year.

## DIVIDENDS FOR THE PERIOD

No dividends have been paid by the Company during the year ended 31 December 2018, nor have the Directors recommended that any dividends be paid.

## OPERATING RESULTS FOR THE PERIOD

The Group elected to change its presentation (reporting) currency from Australian to US dollars commencing with the 2018 financial year. The Company believes that the change in reporting currency will enhance the relevance of its financial information and comparability with its industry peer group, the majority of which report in US dollars. Comparative financial information for the 2017 financial year, has been translated into US dollars using the procedures outlined in note 25 to the financial statements.

## Profit & Loss

The Group's profit after tax for the year to 31 December 2018 was US\$150,223,000 (31 December 2017 - Restated: profit US\$127,000).

This profit after tax includes a gain on sale of US\$223.0 million (pre tax) and US\$146.8 million (after tax) resulting from the sale of the northern tenement package in the Salar del Hombre Muerto to POSCO ("POSCO transaction").

Excluding this gain on sale, the Group profit after tax for the year to 31 December 2018 was US\$3.4 million.

Depreciation and amortization for FY2018 totalled US\$45.6 million.

Revenue from operations increased by 60% to US\$153.9 million in FY2018 compared to the prior financial year, driven by improved commodity prices and an increase of 40% in volume sold from 113,467 dmt in 2017 to 159,255 dmt. The average realised selling price for spodumene sales in FY2018 was US\$927/dmt, an 18% improvement on FY2017 (US\$783/dmt).

The Group generated EBITDA from operations of US\$58.1 million for FY2018 (FY2017: US\$30.6 million). Cost of goods sold per dmt (excluding royalties and selling costs) increased 19% (FY2018: US\$411/dmt sold compared with FY2017: US\$346/dmt sold) resulting from increased mining costs arising from higher strip ratio, higher unit costs in Q3 and Q4 due to lower production and Yield Optimisation tie in costs. These were partially offset by the devaluation of the Australian dollar against the US dollar.

## Cash Flow

The Group's cash flow from operating activities for FY2018 was US\$57.8 million, 32% higher than FY2017 (US\$43.8 million). The improvement was driven by an increase in volumes of spodumene tonnes sold (40%) and by improved commodity prices (18%). However, these revenue gains were offset by higher payments to suppliers including increased mining and other operating costs.

Net cash outflows from investing activities in FY2018 were US\$77.1 million, an increase of US\$50.1 million compared to FY2017. Major cash outflows related to investing activities were US\$29.7 million in payments for property plant and equipment at Mt Cattlin, US\$17.6 million in exploration and evaluation costs at Mt Cattlin, James Bay and Sal de Vida, and US\$22.4 million in payments for financial assets. Investing activities also included US\$14.5 million in payments relating to the POSCO transaction incorporating a US\$8.8 million turnover tax payment to the provincial governments.

Closing cash was US\$24.8 million (2017: US\$46.6 million).

## Balance Sheet

Current assets increased by US\$252.2 million, primarily due to the receivable from the POSCO transaction of US\$271.6 million.

Non-current assets decreased by US\$65.3 million to US\$345.5 million, primarily due to the exploration and evaluation costs derecognised on the POSCO transaction of US\$56.9 million, depreciation and amortization of US\$45.6 million, offset by expenditure on fixed assets of US\$29.8 million and expenditure of US\$17.6 million in exploration and evaluation costs at Mt Cattlin, James Bay and Sal de Vida.

Current liabilities increased by US\$84.3 million to US\$108.5 million, primarily due to the tax liability of US\$67.4 million arising from the POSCO transaction.

The Group ended the period with no outstanding borrowings or debt liabilities.

## Financial Overview Summary

	FY2018 US\$'000	FY2017 US\$'000	Change %
Revenue	153,929	96,287	↑ 60%
Cost of Sales	(128,506)	(70,587)	↑ 82%
Gain on sale (pre tax) – POSCO transaction	223,025	-	n/a
EBITDA – excluding POSCO transaction <sup>(i)</sup>	58,145	30,642	↑ 90%
EBITDA – including POSCO transaction <sup>(i)</sup>	281,170	30,642	↑ 818%
D&A	(45,639)	(21,480)	↑ 112%
Net Profit after tax	150,223	127	↑ 118,186%
Cash inflow from Operating Activities	57,767	43,763	↑ 32%
Cash (outflow) from Investing Activities	(77,117)	(26,950)	↑ 186%
Cash inflow/(outflow) from Financing Activities	(675)	22,849	↓ 103%
Net cash inflow/(outflow)	(20,025)	39,662	↓ 151%
Closing Cash & Cash Equivalents	24,755	46,629	↓ 47%

i. Refer to note 1 – Segment Information

## REVIEW OF OPERATIONS

### Mt Cattlin Operations

#### Background

The Company wholly owns the Mt Cattlin spodumene project, located two kilometres north of the town of Ravensthorpe in Western Australia.

The Mt Cattlin mine operations include open-pit mining of a flat-lying pegmatite ore body. The flat-lying nature of the ore body allows mining to proceed at a reasonably constant strip ratio once the ore is uncovered. Mining is carried out using excavator and truck operations, delivering to a conventional crushing and Dense Media Separation ("DMS") gravity recovery circuit. Contract mining is used for grade control drilling and earthmoving operations (drilling, blasting, load, haul and ancillary work) for the open-cut mining operation.

The crushing plant consists of a 3-stage crushing circuit producing a -6mm product from ROM ore at a treatment rate of 1.8 million tonnes per annum.

The concentrator consists of reflux classifier, dual size steam, two stages of DMS cyclones, with mechanical attritioning of the intermediate sink product. Recent additions include an ultra-fines DMS circuit, a secondary float re-crush circuit and several optical sorting units. The final spodumene concentrate is trucked to the Esperance port for export.

#### Operations

Operations at Mt Cattlin remain Lost Time Incident ("LTI") free since refurbishment and restart of production.

Set out below is a summary of the production and sales statistics for the year:

	Units	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018	FY 2017	YoY %
Mined volume	bcm	843,308	846,830	779,485	988,387	<b>3,458,010</b>	2,052,813	<span style="color: green;">▲ 18%</span>
Ore mined	wmt	528,977	419,314	397,047	432,382	<b>1,777,720</b>	1,321,715	<span style="color: green;">▲ 35%</span>
Ore mined – grade	%	1.01	1.11	0.89	0.98	<b>1.00</b>	1.14	<span style="color: red;">▼ 0.14</span>
Ore treated	wmt	430,398	435,296	441,206	396,604	<b>1,703,503</b>	1,371,365	<span style="color: green;">▲ 24%</span>
Ore treated – grade	%	1.11	1.17	0.98	1.07	<b>1.08</b>	1.20	<span style="color: red;">▼ 0.12</span>
Recovery	%	52	56	42	47	<b>50</b>	56	<span style="color: red;">▼ 0.06</span>
Concentrate produced	dmt	43,852	47,901	31,156	33,780	<b>156,689</b>	155,679	<span style="color: green;">▲ 1%</span>
Concentrate sold	dmt	44,258	45,761	29,555	39,682	<b>159,255</b>	153,518	<span style="color: green;">▲ 4%</span>
Concentrate sold – grade	%	5.70	5.83	5.65	5.81	<b>5.76</b>	5.69	<span style="color: green;">▲ 0.07</span>
Realised Selling Price <sup>(i)</sup>	US\$/dmt	900	975	893	928	<b>927</b>	783	<span style="color: green;">▲ 18%</span>
Selling and Royalty costs	US\$/dmt	103	109	91	63	<b>92</b>	91	<span style="color: red;">▲ 1%</span>
Cash cost per tonne sold <sup>(ii)</sup>	US\$/dmt	358	332	391	577	<b>411</b>	346	<span style="color: red;">▲ 19%</span>
Cash Margin <sup>(iii)</sup>	US\$/dmt	439	534	411	288	<b>424</b>	346	<span style="color: green;">▲ 23%</span>

i. Realised Selling price per tonne of Concentrate Sold is the FOB Esperance price excluding shipping costs.

ii. Cash costs per tonne sold are disclosed in note 2 and are divided by tonnes of Concentrate Sold, after net inventory adjustments, to arrive at the above metrics.

iii. Cash margin per tonne of Concentrate Sold is calculated as Realised Selling price less Selling and Royalty costs (see note 2) less cash cost per tonne sold. It is a non-IFRS measure that has been included to assist investors to better understand the performance of the business, and where included in this report, has not been subject to audit.

The key operational achievements at Mt Cattlin during the year were:

- ◆ Operations at Mt Cattlin remain Lost Time Incident ("LTI") free since refurbishment and restart of production.
- ◆ Total mining volumes increased by 18% over the previous year because the operations were being ramped up and commissioned in 2017.
- ◆ Ore volume mined increased by 35% to 1,777,720 wmt, with ore grade of 1.00% achieved.
- ◆ Production of 156,689 dmt of spodumene concentrate was lower than expectation due to:
  - Lower ore grade mined and processed which came about because the majority of ore processed during Q3 and Q4 came from the lower grade 2SW pit whilst mining only commenced East of Floater Road in early Q4;
  - Reduced recovery during Q3 and Q4 from:
    - Continued processing of the weathered, lower quality ore originating from the 2SW pit that contained lower spodumene content and lower levels of spodumene liberation through the plant; and
    - Increased proportion of fines within the feed product without the full completion of commissioning related to the Yield Optimisation Project ("YOP") upgrades which will facilitate more comprehensive treatment of this ore;
  - Lower plant utilization from tie-in shutdowns and commissioning associated with the YOP.
- ◆ Ore currently being mined from east of Floater Road will be higher grade and fresh ore (i.e. not weathered ore) that will result in improvement in plant recoveries. Ore treated during Q1 2019 will largely originate from this region.
- ◆ From a grade perspective, it is anticipated that the mined and processed grade for FY2019 will revert to be in line with the reserve grade.
- ◆ Mt Cattlin reported average cash margin per dmt sold increased by 23% over the previous year primarily due to increased revenue.
- ◆ A total of 11 shipments of lithium concentrate were completed during the year for an aggregate 159,255 dmt of product sold, with all shipments at grade levels above contract requirements, as well as having moisture and mica content levels well below contract specifications.
- ◆ Construction of the YOP at Mt Cattlin was completed during Q4 and commissioning was approximately 85% completed by the end of the period. The YOP includes an ultra-fines DMS circuit, a secondary

float re-crush circuit and several optical sorting units. These productivity improvement projects have been implemented with the objective of increasing overall process recovery. The improvements in recoveries and production rates are expected to be realized starting from Q1 2019.

- ◆ Qube Bulk handle the transport, storage and shiploading of all of Mt Cattlin's spodumene concentrate through the port of Esperance. In May 2018, Qube Bulk completed and commissioned a new purpose built storage facility in Esperance that has doubled storage capacity for Mt Cattlin spodumene concentrate to 30,000 tonnes. This new storage facility will allow for more efficient shiploading and logistics.
- ◆ Reduced margins in lithium chemical sales have resulted in a flowback reduction in the contracted price of spodumene for 1H 2019. Whilst contract prices are notably weaker than 2018, they have not reduced by the same percentage magnitude as the fall in Chinese lithium carbonate prices in 2018. Further, as a result of price volatility, Galaxy has adapted its price strategy for 2019 and has negotiated for a price reset during the course of 2019 rather than a 12 month fixed price.

## Exploration, Resources and Reserves

The key exploration, resource & reserve achievements at Mt Cattlin during the year were:

- ◆ Continued the previously announced ~30,000m drill program in support of exploration, resource and reserve development at Mt Cattlin;
- ◆ In early December 2018, the Company released an exploration update advising that exploration drilling had delineated a second, previously unidentified lode beneath the known spodumene bearing lode immediately to the north of the 2SW pit. This pegmatite body was not previously included in the existing resource model.
- ◆ Exploration at the Sidar and Floater Projects north of Mt Cattlin targeted four ground penetrating radar ("GPR") targets with twelve drill holes, intersecting eight new blind pegmatite targets. Assays for these drill holes have not yet been received. Blind targets had no surface expression and no other targeting prior to the GPR campaign. Exploration activities will now focus on a further round of GPR in the tenements surrounding Mt Cattlin and completion of geochemical sampling programs confirming earlier GPR work. Drilling in support of resource development re-started in early January 2019.

- ◆ After year end, an updated Resource and Reserve statement for Mt Cattlin was released to ASX with the following highlights:
  - 40% increase in proven & probable reserve tonnes to 10.7Mt at a grade of 1.15% Li<sub>2</sub>O;
  - 42% increase in total Measured, Indicated & Inferred Resource tonnes to 16.7Mt, at a grade of 1.28% Li<sub>2</sub>O;
  - 16% increase in total Measured & Indicated resource tonnes to 12.1Mt, at a grade of 1.27% Li<sub>2</sub>O; and
  - 53% increase in contained lithia metal tonnes.

Galaxy made the following acquisitions of tenements that surround the existing Mt Cattlin operations during the year and as a result, Galaxy now owns approximately 460km<sup>2</sup> of mining and exploration licences including the existing Mt Cattlin operations:

- ◆ 3 exploration licenses (E74/379, E74/399 and E74/406); and
- ◆ 3 exploration licenses (E74/571, E74/570 and E74/589) from Kingston Resources Limited for A\$300,000 in cash plus the issue of 93,168 shares in Galaxy (valued at A\$300,000).

## Sal De Vida Project

### Background

The Sal de Vida lithium project ("Sal de Vida" or "Project") is located on the Salar del Hombre Muerto in northwest Argentina and is one of the world's largest and highest quality undeveloped lithium brine deposits with significant expansion potential.

The JORC-compliant ore reserve estimate of 1.1 million tonnes of retrievable lithium carbonate equivalent and 4.2 million tonnes of potassium chloride (potash or KCl) equivalent supports total annual production over a 40 year period.

Sal de Vida is located in north-west Argentina in what is known as the 'Lithium Triangle', home to more than half of the world's annual production of lithium from brines in the Salar de Atacama and the Salar del Hombre Muerto. The Salar lies approximately 1,400 kilometres north-west of Buenos Aires at an altitude of 4,025 metres. The property is accessible from the cities of Catamarca and Salta via an all-seasons road, and there is a major powerline 115 kilometres away.

### POSCO Sale

In August 2018, Galaxy entered into an agreement with POSCO to sell a package of tenements located on the northern area of the Salar del Hombre Muerto in Argentina, for cash consideration of US\$280 million ("POSCO transaction"). The tenement package is situated to the north of Sal de Vida. Key highlights of the sale agreement are:

- ◆ Cash consideration of US\$280 million;
- ◆ Galaxy retains 100% ownership of all tenements in the southern basin that hosts the Project and which contains 100% of the previously announced reserves of 1.14 million tonnes LCE; and
- ◆ Funds available to Galaxy to progress Sal de Vida development in the Catamarca Province.

In late November 2018, Galaxy announced that the final tenement transfer deeds relating to the sale of the northern tenement package had been executed with POSCO. Registration of the Catamarca tenement transfers with the Catamarca Mining Court was completed on 28 December 2018. Registration of the Salta tenement transfers with the Salta Mining Court was completed on 21 February 2019. Galaxy received US\$257.05 million (after deduction of withholding tax of US\$7.95 million paid in November 2018) in sale proceeds from escrow on 25 February 2019. Galaxy anticipates receiving the remaining US\$14.55 million (after deduction of withholding tax of US\$0.45 million paid in November 2018) in sale proceeds from POSCO by 1 March 2019. The total withholding tax payment of US\$8.4 million is the first instalment of income tax payable.

A pre-tax gain on sale of US\$223.0 million (after tax gain of US\$146.8 million) has been recognized in the Statement of Consolidated Income. Refer to note 13.

### Strategic Partnership

Galaxy appointed JP Morgan Australia as financial advisor to assist in evaluating potential strategic partnership and/or offtake opportunities to advance the development of Sal de Vida. Throughout the second half of 2018, Galaxy advanced a comprehensive evaluation of strategic options in relation to Sal de Vida.

Galaxy received several offers from potential strategic partners which are currently being evaluated in detail. Negotiations continue to progress, so the Board has resolved to formally extend the process timeline to ensure proper consideration is given to the strategic merits and proposed terms and structures of each of the offers.

Given the superior quality of Sal de Vida as a long life, low-cost operation with excellent economics, Galaxy will only proceed with a strategic partner if the final terms of the relationship properly recognize the fundamental underlying value of Sal de Vida and the partner can add additional value to the Project either through technical and/or financial input.

Sal de Vida is recognized as one of the best undeveloped lithium resources, globally, based on:

- ◆ Reserves of 1.14Mt LCE (0.18Mt Proven, 0.96Mt Probable), supporting an initial 40-year project life, coupled with a resource of 4.92Mt LCE (1.96Mt Measured, 2.58Mt Indicated, 0.38Mt Inferred) and substantial upside;
- ◆ Favorable brine chemistry – highest lithium concentration of Argentine development assets (732mg/L Li) and low impurity levels;
- ◆ High economic returns forecast through feasibility studies, with operating costs forecast to be within the lowest quartile; and
- ◆ Project already substantially de-risked from a financial perspective following the completion of the POSCO transaction for US\$280 million.

## Project activities

The other key initiatives achieved at Sal de Vida during the year were:

- ◆ Earthworks for a drilling program were undertaken including access roads and drilling pads;
- ◆ A new production well (SVWW18\_24) was completed during Q2, increasing knowledge both of the geology and hydrogeology related to the northern basin tenements. This new well was terminated at a depth of 351 metres and was developed to provide hydraulic parameters. Both step and continuous pumping tests were successfully performed during a 48 hour period. The resource extension drilling campaign advanced in Q4 2018. Wells #25 and #26 have achieved depths of 311m and 183m respectively. When completed, results from the new wells will be modelled to enable a recalculation of the resource, as well as to strengthen the knowledge base upon which the current hydrogeological model of the salar is founded;
- ◆ A small fleet of heavy equipment machines to be used to construct test ponds and for general use around the site were purchased and arrived on site;
- ◆ Construction of a 15 hectare pilot evaporation pond commenced with progress of earthworks approximately 50% complete at the end of the year;

- ◆ As part of the Company's continuous product validation and process optimization strategy the project team is currently undertaking two concurrent test work programs. Work is currently underway to prove up and fine tune each unit process in the existing process flowsheet (incorporating solar evaporation ponds) to produce a battery-grade lithium carbonate. A strategic decision was also made in late 2018 to further assess alternative processing technologies through a parallel test work program utilizing several non-conventional technologies that are in already in commercial use, albeit in non-lithium industries. To assist this process, an independent process advisory committee has been established to oversee and guide this work program. The committee comprises three technical industry experts, with former experience at FMC, Rockwood and Tianqi, as well as two senior Galaxy representatives;
- ◆ To support the ramp up of activities on site and at the camp, infrastructure works have been initiated to provide the Tango 01 camp with electricity, fresh water, sewage and waste disposal facilities;
- ◆ Value engineering studies were initiated during Q4, primarily focused on identifying potential capital reduction opportunities and advancing project engineering to the detail required to prepare and commission bid packages for detailed engineering. A detailed geotechnical survey was also well advanced during Q4. This work program will form the foundation of engineering input to civil works, most notably for the construction of the evaporation ponds and the precise location of the process plant. Further value engineering analysis, including energy generation options, water supply and offsite precast and pre-assembly options will be advanced in 2019;
- ◆ As part of its continued community relations efforts, the Sal de Vida team organized a series of training sessions for local providers residing at the different satellite cities like Antofagasta de la Sierra and Belen in Catamarca Province. The laboratory operations training program, which has been developed in partnership with the Catamarca University and Alex Stuart Assayers, now has a range of classes being offered on campus at the University; and
- ◆ A lease has been signed for a new corporate office location in Catamarca City which will act as the principal base for the project team. Construction and fit-out of the office is scheduled to be completed early in Q2 2019.

## James Bay

### Background

The James Bay lithium pegmatite project in Quebec, Canada contains an ore resource stands at 40.3 Mt @1.40% Li<sub>2</sub>O, all classified as Indicated (JORC 2012). The James Bay project is located in northwest Quebec, two kilometres south of the Eastmain River and 100 kilometres east of James Bay.

The proximity of the James Bay project to local infrastructure, including the accessible road networks, water and power supply are all natural advantages and key to the development of James Bay. The James Bay project is located 0.5km from a full-service road stop with helicopter access, fuel, motel and restaurant services, which is situated 380km away from the mining town of Matagami (where numerous services relating to construction and mining are available) and just over 800km from Montreal in the north-west region of Québec Province, Canada. The James Bay project is readily accessible by paved road as the James Bay Highway bisects the property and the airstrip is only 15 kilometres away.

The James Bay deposit occurs at surface, comprises of several swarms of pegmatite dykes and resource modelling indicates that the resource is amenable to open pit extraction. The topography is gently rolling to flat lying with much of it covered by muskeg. Outcrops are common, usually occurring as mounds or ridges above the surrounding plain. Surface mapping identified 15 different pegmatite swarms, each consisting of up to seven dykes. The individual pegmatite bodies are mainly irregular dykes or lenses attaining up to 60 metres in width and over 100 metres in length. The pegmatite outcrops form a discontinuous band or "corridor" approximately four kilometres long and 300 metres wide, cutting the host rock at a low angle and cross-cutting the regional foliation at a high angle. Spodumene crystals at James Bay are relatively coarse, usually more than 5cm in length and sometimes exceeding one metre.

### Project activities

The key initiatives achieved at James Bay during the year were:

- ◆ A drilling campaign supporting the Feasibility Study ("FS") and Environmental and Social Impact Assessment ("ESIA"), was completed. This included sterilization, geotechnical (site infrastructure and pit) and hydrogeological drilling. These results were then used to advance the engineering work in term of geology, developing the mining plan, designing the processing plant and site infrastructure, which includes waste rock pile and tailings facility. Information collected during the drilling campaign undertaken was used to advance the engineering supporting the FS and ESIA for the upstream mine and concentrate production facility, i.e. developing the mining plan, designing the processing plant and site infrastructure, which includes waste rock pile and tailings facility;
- ◆ Hydro-Quebec completed their analysis and scoping study report for the construction of the power line for the project through a 7-km spur connection to be made from the James Bay project site to their existing power line. Hydro-Quebec commenced "Pre-Work" engineering involving the design and construction of a powerline and connection infrastructure for future power supply to the Project;
- ◆ On 21 March 2018, the Government of Quebec approved an amendment to the Environment Act governing the Environmental and Impact assessment of various projects. This amendment highlighted that the conversion of mining concentrate in Quebec for a production level below 40,000 tpa of final product doesn't require a full ESIA process;
- ◆ The Environmental and Social Impact Assessment ("ESIA") was completed and submitted to various authorities for evaluation in Q4 2018. Communications, exchanges and meetings regarding the ESIA have commenced with various key stakeholders, including federal, provincial, and the Cree Nation authorities;
- ◆ Engagement with the Cree Nation of Eastmain included meeting with the Band Council of Eastmain and various stakeholders in the community and participation of a public Career Fair in the community. The first public town hall meeting was hosted in Eastmain and was an opportunity for Galaxy to present the progress of the project to the community. Additional consultation meetings incorporating a Technical Course, given by a third party, presenting all aspects of a mining project from exploration to operation were undertaken. Engagement with the Cree Nation of Eastmain continued, including discussions around finalizing a Pre-Development Agreement ("PDA");

- ◆ The Phase 2 test work program for the James Bay upstream operation continued as planned during the period. This test work program is being completed by Nagrom and is focused on confirming, refining and optimizing the upstream flowsheet design to maximize theoretical process performance based on the specific geological and metallurgical characteristics of the James Bay orebody. It is estimated that this work program is 50% completed;
- ◆ Metallurgical test work adopting a conventional processing approach was substantially completed for the proposed downstream conversion facility, with results in-line with the expectation. In parallel, location studies continue with site visits and preliminary discussion undertaken with related local Economic Development Organizations; and
- ◆ A comprehensive and competitive bid process to select engineering firms and specialized consultants to undertake the combined feasibility study integrating a downstream conversion facility into the project design was completed. Contract award is expected in January with work planned to commence shortly thereafter.

## CORPORATE

During the year:

- ◆ Ms Florencia Heredia was appointed as Non-Executive Director of the Company;
- ◆ ASX advised that Galaxy's classification has changed from a mining exploration entity to a mining producing entity. Consequently, Galaxy is no longer required to lodge appendix 5B's but is now required to lodge preliminary final reports (Appendix 4E) and half yearly reports (Appendix 4D) within two months of the end of the relevant accounting period; and
- ◆ The Company changed its presentation (reporting) currency from Australian dollars to US dollars, commencing with the 2018 financial year. The year financial report for the twelve months ending 31 December 2018 (Appendix 4E) is presented in US dollars.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs other than those listed in the review of operations above.

## EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters set out below, in the interval between the end of the 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:

- ◆ Mr Jian-Nan Zhang retired as a Non-executive Director on 16 January 2019;
- ◆ Mr Alan Fitzpatrick was appointed as a Non-executive Director on 16 January 2019;
- ◆ On 23 January 2019, an updated Resource and Reserve statement for Mt Cattlin was released to ASX with the following highlights:
  - 40% increase in proven & probable reserve tonnes to 10.7Mt at a grade of 1.15% Li<sub>2</sub>O;
  - 42% increase in total Measured, Indicated & Inferred Resource tonnes to 16.7Mt, at a grade of 1.28% Li<sub>2</sub>O;
  - 16% increase in total Measured & Indicated resource tonnes to 12.1Mt, at a grade of 1.27% Li<sub>2</sub>O; and
  - 53% increase in contained lithia metal tonnes.
- ◆ Registration of the Salta tenement transfers with the Salta Mining Court was completed on 21 February 2019. This completes the registration process for the POSCO transaction. Galaxy received US\$257.05 million (after deduction of withholding tax of US\$7.95 million paid in November 2018) in sale proceeds from escrow on 25 February 2019. Galaxy anticipates receiving the remaining US\$14.55 million (after deduction of withholding tax of US\$0.45 million paid in November 2018) in sale proceeds from POSCO by 1 March 2019.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company and Group intend to continue to unlock and realize value from the existing assets of Sal de Vida and James Bay and to seek new investment opportunities in the lithium sector.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Board has established a Health, Safety, Environment and Community ("HSEC") Committee which is tasked with overseeing HSEC risks and compliance within the Group.

The Group holds environmental licenses to regulate its mining, exploration and chemicals activities issued by the relevant environmental protection authorities of the various countries in which it operates. These licenses 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.

The Group is registered under the *National Greenhouse and Energy Reporting Act*, under which it is required to report energy consumption and greenhouse gas emissions for its Australian facilities for the 12 months ended 30 June and future periods. The Group has established data collection systems and processes to meet these requirements.

There have been no material breaches of the Group's licenses and all mining, exploration and chemicals activities have been undertaken in compliance with the relevant environmental regulations.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into Good, Faith, Protection and Access Deed with each of the Directors and Officers which will indemnify them against liabilities incurred to a third party (not being the Company or a related body corporate of the Company) as a director or officer of the Company or a related body corporate of the Company where the liability does not arise out of conduct involving a lack of good faith.

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, during or since the end of the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Directors, secretaries, executive officers and employees of the Company and any related bodies corporate as defined in the insurance policy. The insurance grants indemnity against liabilities permitted to be indemnified by the Company under Section 199B of the Corporations Act 2001. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

## SHARE OPTIONS

### Unissued shares

At the date of this report, the Company has the following unissued shares under options:

Maturity Date	Exercise Price	Number Outstanding
14 June 2020 (unlisted)	A\$2.78	14,575,000
1 May 2021 (unlisted)	A\$3.66	500,000
<b>Total</b>		<b>15,075,000</b>

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

Details of options granted to Directors and other key management personnel during the year are set out in the Remuneration Report.

### Shares issued as a result of the exercise of options

During the financial year, option holders exercised unlisted options to acquire 2,292,437 fully paid ordinary shares in Galaxy Resources Limited at a weighted average exercise price of A\$0.867 per share.

## 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 and Risk 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 or payable to PwC can be found at note 24.

## 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 50 and forms part of the Directors' Report for the year ended 31 December 2018.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in "ASIC *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*", issued by the Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the Directors' Report and accompanying Financial Report. Amounts in the Directors' Report have been rounded off in accordance with that Rounding Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

# REMUNERATION REPORT – AUDITED



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

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Rewards Strategy

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Compensation

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Service agreements

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Details of remuneration

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Share-based compensation

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Additional disclosures relating to  
key management personnel

The information provided within this remuneration report includes remuneration disclosures that are required under section 300A of the *Corporations Act 2001*.



## KEY MANAGEMENT PERSONNEL

Key Management Personnel ("KMP") 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. KMP comprise the Directors of the Company and senior executives for the Group. The key management personnel of the Group during the year ended 31 December 2018 are set out below:

Name	Role	Period of employment
<b>Non – Executive Directors</b>		
Peter Bacchus	Non-Executive Director	Full year
Florencia Heredia	Non-Executive Director	Full year
Martin Rowley	Non-Executive Director	Full year
John Turner	Non-Executive Director	Full year
Jian-Nan Zhang	Non-Executive Director	Full year
<b>Executive Director</b>		
Anthony Tse	Managing Director and Chief Executive Officer ("CEO")	Full year
<b>Other KMP</b>		
Mark Pensabene	Chief Operating Officer ("COO")	Until 4 May 2018
Nicholas Rowley	Director Corporate Development	Full year
Alan Rule	Chief Financial Officer ("CFO")	Full year
Brian Talbot	Acting COO	From 7 May 2018

### Changes since the end of the reporting period

On 16 January 2019, Mr Zhang retired from the Board of Directors and Mr Fitzpatrick was appointed as a Non-Executive Director.

## REWARDS STRATEGY

### Overview

The Total Rewards Strategy is underpinned by a core philosophy about the kind of rewards and environment that Galaxy wants to create for all employees. This philosophy then influences the principles required for the framework.

The table below explains the differences between the philosophy and principles:

Total rewards philosophy	Total rewards principles
<ul style="list-style-type: none"> <li>◆ An overarching statement around Galaxy's philosophy for all forms of reward</li> <li>◆ Underpinned by guiding principles on how pay and all forms of reward are aligned to business strategy in order to attract and retain the right people and to motivate desired behaviours and performance</li> <li>◆ Rewards can be characterised by:           <ul style="list-style-type: none"> <li>• <b>Extrinsic:</b> Rewards that have a quantified monetary value</li> <li>• <b>Intrinsic:</b> Rewards that have value to employees that cannot be quantified in terms of monetary value</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ A plan of action designed to achieve desired reward philosophy</li> <li>◆ The full range of intrinsic and extrinsic rewards bound together in a total reward approach           <ul style="list-style-type: none"> <li>• An <b>integrated solution</b>, not a random collection of independent recommendations</li> <li>• The <b>optimal mix of rewards</b> to achieve the <b>highest return on investment</b></li> </ul> </li> </ul>

## Rewards Philosophy

To reinforce these core beliefs, the following outlines the Rewards philosophy for Galaxy:

- ◆ Our total rewards approach is designed to be **balanced and competitive** across the organisation. It is aimed at **empowering our employees** to use their initiative and discretionary effort in achieving our business strategies.
- ◆ Our total rewards approach stretches beyond financial remuneration and focuses on the **employee value proposition** delivering experiential and emotional value. It represents the various ways that we aim to reward employees for their contribution to our business success.
- ◆ We provide a **suite of total reward programs** to recognise excellence, outstanding individual and organisational performance and demonstration of our values.
- ◆ Rewards provided should be **valued and meaningful to employees**. It should have a rigorous and documented process and be **clearly communicated**.

## Rewards Principles

Galaxy Reward strategy is summarised in the following guiding principles:

- ◆ **Business Alignment:**  
Our total reward approach will be structured to support our business strategies and objectives and to reinforce our desired values and behaviours.
- ◆ **Market Competitiveness:**  
We will regularly conduct market benchmarking to ensure that our reward practices are competitive against the industries with whom we compete for talent. Our fixed reward offering will be sufficiently attractive to enable us to recruit and retain top talent in order to drive business outcomes. Variable reward will provide the opportunity for our highest – performing employees to receive additional remuneration. This can encompass short-term incentives ("STI") and long-term incentives ("LTI"). Market data will be sourced against the 50<sup>th</sup> percentile (with a willingness to explore up to the 75<sup>th</sup>) of the mining sector in order to ensure that remuneration is competitive, and that internal relativities are reasonable.

### ◆ **Workforce Segmentation:**

Generally, we will adopt a common rewards framework for all employees. In certain circumstances, we may need to segment our workforce to ensure that we apply reward strategies that optimise our investment in critical or strategic talent. For example, niche or specialist roles may need to be considered separately to recognise the unique market for talent.

### ◆ **Grading Framework:**

We will apply a job grading framework that reflects our organisation structure and supports delivery of rewards and other HR initiatives. Job grading is based on a structured, external methodology, and reflects key elements such as the impact of the job and communication, innovation and knowledge requirements.

### ◆ **Reward for Performance:**

We will differentiate reward according to performance. Variable pay is performance-based and will form an integral part of our total rewards package. Our performance-based rewards provide an opportunity for participating employees to earn variable pay when our business exceeds performance expectations. Our variable reward system (e.g. STI & LTI) is designed to drive both organisational and individual performance. The STIs (annual) rewarded in cash, will be designed to primarily reward overall outstanding performance against goals (as pre-determined) and also take into account behavioural expectations. The LTIs rewarded in equity-based benefits, will be designed to retain and incentivise senior management and key individuals over the longer term.

### ◆ **Communication:**

We will provide clarity around our total reward philosophy, and the principles of our rewards programs will be openly communicated. Managers will feel confident in discussing our reward philosophy and guiding principles, while individuals will understand how all elements of their total reward work together, on top of cash remuneration, to reflect how Galaxy values their contribution.

◆ **Transparency:**

Managers will have access to their teams' pay ranges and their respective pay within ranges, while all employees will have access to:

- Our reward principles;
- The level in which their role sits;
- Competence and performance expectations of their role;
- Their managers' honest view on how their individual performance has been assessed;
- Their logical career path;
- Considerations for determining the positioning of an individual within their remuneration range; and
- Annual remuneration review process

◆ **Career:**

We recognise that individuals seek to develop their skills and capabilities to better enhance their individual value. We will support the individual to own their career journey. This will be achieved through on-the-job development and experiences, provision of relevant technical training, behavioural competency development, actionable feedback and support in external programs that are complementary to business needs.

## COMPENSATION

Remuneration is referred to as compensation throughout this report.

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 KMP 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. Refer to note 19 for details of options issued under the LTIP.

Shareholders approved the establishment of the Galaxy Resources Limited Incentive Option Plan ("IOP") on 18 May 2017. The objective of the IOP is to attract, motivate and retain Directors, management and key employees by providing recipients of options under the plan with the ability to participate in the future growth of the Company. Refer to note 19 for details of options issued under the IOP.

### 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 KMP compensation.

### Non-Executive Directors

Total cash salaries and fees for all Non-Executive Directors, last voted upon by shareholders at the 15 May 2018 Annual General Meeting, is not to exceed US\$1,000,000 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 January 2017 the Chairperson receives US\$300,000 which has remained unchanged in the current year. Effective 1 January 2018, Non-Executive Directors receive US\$100,000 per annum (2017: A\$100,000) all inclusive of superannuation. Directors' fees cover all main Board activities and memberships of committees.

## SERVICE AGREEMENTS

The Group has entered into service contracts with each KMP. The service contract outlines the components of remuneration paid to each key management person but does not prescribe how remuneration levels are modified from year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the KMP and any changes required to meet the principles of the remuneration policy. No service contract specifies a term of employment or entitlement to performance-based incentives.

The Company may elect to pay the required notice period in part or full. KMP are also entitled to receive, on termination of employment, statutory entitlements of accrued annual and long service leave, and any accrued superannuation contributions would be paid to their fund. In the case of a genuine redundancy, executives would receive their statutory entitlements based on completed years of service.

The following table outlines the details of contracts with executives.

<b>Name</b>	<b>Fixed Remuneration</b>		<b>Termination Provisions</b>	
	<b>Current</b>	<b>Effective From</b>	<b>Notice Period <sup>(i)</sup></b>	<b>Entitlement to Options &amp; Rights on Termination</b>
Anthony Tse	US\$400,000	1 January 2017	Nil <sup>(ii)</sup>	In accordance with the terms and conditions of the LTIP (for share appreciation rights) and IOP (for options).
Mark Pensabene <sup>(iii)</sup>	A\$360,000	1 January 2018	6 months	
Nicholas Rowley	A\$250,000	1 January 2018	1 month	
Alan Rule	A\$310,000	1 January 2018	6 months	
Brian Talbot	A\$290,000	1 January 2018	6 months	

i. Notice periods apply to both employer and employee initiated termination.

ii. Termination can occur with immediate effect by notification from either party.

iii. Mr Pensabene resigned as COO effective 4 May 2018 and the Company elected to pay out the specified 6-month notice period in full. Prior to Mr Pensabene's resignation, he held 400,000 vested and unvested share appreciation rights and 1,000,000 vested and unvested options exercisable at \$2.78, expiring on 14 June 2020. As a consequence of Mr Pensabene's resignation, 200,000 unvested share appreciation rights and 350,000 unvested options lapsed.

## DETAILS OF REMUNERATION

The details of remuneration of the KMP and specified executives of the Group are set out in the following tables.

### Remuneration for the Year Ended 31 December 2018

	Short-term			Post-employment Super-annuation US\$	Share-based payments		Termination Payments US\$	Total US\$	Performance Related %
	Cash salary & fees US\$	Incentive Payment US\$	Non-monetary benefits US\$		Options US\$	SARs US\$			
<b>Non – Executive Directors</b>									
Peter Bacchus	100,000	-	-	-	79,676		-	<b>179,676</b>	44.3%
Florencia Heredia	100,000	-	-	-	-		-	<b>100,000</b>	-
Martin Rowley	300,000	-	2,996	-	637,411		-	<b>940,407</b>	67.8%
John Turner	100,000	-	-	-	79,676		-	<b>179,676</b>	44.3%
Jian-Nan Zhang	89,006	-	-	8,456	21,121		-	<b>118,583</b>	17.8%
<b>Executive Director</b>									
Anthony Tse	396,587	300,000	-	-	637,411		-	<b>1,333,998</b>	70.3%
<b>Other KMP</b>									
Mark Pensabene <sup>(i)</sup>	93,112	-	1,248	10,693	(28,093)	(89,753)	142,917	<b>130,124</b>	(90.6%)
Nicholas Rowley	186,798	46,547	2,996	19,583	188,097	-	-	<b>444,021</b>	52.8%
Alan Rule	231,630	35,805	2,996	18,562	188,097	89,301	-	<b>566,391</b>	55.3%
Brian Talbot <sup>(ii)</sup>	148,930	25,064	1,748	12,308	68,873	36,456	-	<b>293,379</b>	44.4%
<b>Total</b>	<b>1,746,063</b>	<b>407,416</b>	<b>11,984</b>	<b>69,602</b>	<b>1,872,269</b>	<b>36,004</b>	<b>142,917</b>	<b>4,286,255</b>	

- i. Mr Pensabene resigned as COO effective 4 May 2018. Expense previously recognized in relation to unvested SARs and Options that lapsed on termination has been reversed in the current year.
- ii. Mr Talbot was appointed Acting COO effective 7 May 2018. Remuneration reported above only corresponds to the period during which the individual was classified as a KMP.

### Incentive Payment

The Board approved the incentive cash payment to the Executive Director and Other KMP recognizing their contribution and achievement in realizing and unlocking value from the Sal de Vida asset with the completion of the POSCO transaction.

### Remuneration for the Year Ended 31 December 2017 – Restated

	Short-term		Post-employment	Share-based payments		Total US\$	Performance Related %
	Cash salary & fees US\$	Non-monetary benefits US\$		Superannuation US\$	Options US\$		
<b>Non – Executive Directors</b>							
Peter Bacchus	76,030	-	-	229,596	-	<b>305,626</b>	75.1%
Martin Rowley	301,117	-	-	1,836,765	-	<b>2,137,882</b>	85.9%
John Turner	76,030	-	-	229,596	-	<b>305,626</b>	75.1%
Xi Xi	24,425	-	-	-	-	<b>24,425</b>	-
Jian-Nan Zhang	70,009	-	6,651	229,596	-	<b>306,256</b>	75.0%
<b>Executive Director</b>							
Anthony Tse	397,960	-	-	1,836,765	-	<b>2,234,725</b>	82.2%
<b>Other KMP</b>							
Mark Pensabene <sup>(i)</sup>	242,511	-	14,875	515,757	234,433	<b>1,007,576</b>	74.5%
Nicholas Rowley	180,152	-	15,203	515,757	-	<b>711,112</b>	72.5%
Alan Rule <sup>(ii)</sup>	161,871	-	11,298	515,757	123,491	<b>812,417</b>	78.7%
<b>Total</b>	<b>1,530,105</b>	-	<b>48,027</b>	<b>5,909,589</b>	<b>357,924</b>	<b>7,845,645</b>	

i. Commenced employment on 6 February 2017

ii. Commenced employment on 10 April 2017

## SHARE-BASED COMPENSATION

All rights and options refer to rights and options over ordinary shares of Galaxy Resources Limited, which are exercisable on a one-for-one basis.

There were no options or rights granted to KMPs as compensation during the current year. There were no options exercised by KMPs during the year.

Details of options and rights granted as compensation in previous years and which have vested during or remain outstanding at the end of the year are provided on page 47.

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

<b>Unlisted options</b>	<b>Balance at 1 January 2018</b>	<b>Granted as remuneration</b>	<b>Exercised</b>	<b>Net Change Other</b>	<b>Balance at 31 December 2018</b>	<b>Vested</b>		
						<b>Total</b>	<b>Exercisable</b>	<b>Not Exercisable</b>
<b>Directors</b>								
Peter Bacchus	275,000	-	-	-	275,000	150,000	150,000	-
Florencia Heredia	-	-	-	-	-	-	-	-
Martin Rowley	4,000,000	-	-	-	4,000,000	3,000,000	3,000,000	-
Anthony Tse	4,000,000	-	-	-	4,000,000	3,000,000	3,000,000	-
John Turner	500,000	-	-	-	500,000	375,000	375,000	-
Jian-Nan Zhang	500,000	-	-	-	500,000	250,000	250,000	-
<b>Other KMP</b>								
Mark Pensabene <sup>(i)</sup>	1,000,000	-	-	(1,000,000)	n/a	n/a	n/a	n/a
Nicholas Rowley	1,000,000	-	-	-	1,000,000	750,000	750,000	-
Alan Rule	1,000,000	-	-	-	1,000,000	750,000	750,000	-
Brian Talbot <sup>(ii)</sup>	n/a	-	-	800,000	800,000	600,000	600,000	-
<b>Total Options</b>	<b>12,275,000</b>	-	-	<b>(200,000)</b>	<b>12,075,000</b>	<b>8,875,000</b>	<b>8,875,000</b>	-

i. Mr Pensabene resigned as COO on 4 May 2018. "Net Change Other" represents the number of options held at this date.

ii. Mr Talbot was appointed Acting COO effective 7 May 2018. "Net Change Other" represents the number of options held at this date.

These options held by KMP's were granted on 18 May 2017, expire on 14 June 2020, are exercisable at A\$2.78 and have the following vesting conditions:

<b>Tranche</b>	<b>%</b>	<b>Vesting Condition</b>
<b>A</b>	25	Upon the Company achieving a closing Share price on the ASX of at least \$3.15 (on a post Consolidation basis) for 30 consecutive trading days
<b>B</b>	20	Upon the Company's Mt Cattlin project achieving 160,000 metric tonnes per annum equivalent production of lithium concentrate for 3 consecutive months
<b>C</b>	20	Upon the Company achieving earnings before interest, tax, depreciation and amortization (EBITDA) of at least \$50 million over a trailing 12 month period commencing 1 June 2017
<b>D</b>	15	Upon the Directors of the Company making a decision to develop either of the Sal de Vida or James Bay Project
<b>E</b>	10	12 months continuous employment or service from date the option is granted
<b>F</b>	10	24 months continuous employment or service from date the option is granted

Tranches D and F remain unvested at 31 December 2018.

Share appreciation rights (SARs)	Balance at 1 January 2018	Granted as remuneration	Exercised	Net Change Other	Balance at 31 December 2018	Vested		
						Total	Exercisable	Not Exercisable
<b>Directors</b>								
Peter Bacchus	-	-	-	-	-	-	-	-
Florencia Heredia	-	-	-	-	-	-	-	-
Martin Rowley	-	-	-	-	-	-	-	-
Anthony Tse	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
John Turner	-	-	-	-	-	-	-	-
Jian-Nan Zhang	-	-	-	-	-	-	-	-
<b>Other KMP</b>								
Mark Pensabene <sup>(i)</sup>	400,000	-	(200,000)	(200,000)	n/a	n/a	n/a	n/a
Nicholas Rowley	-	-	-	-	-	-	-	-
Alan Rule	200,000	-	-	-	200,000	100,000	100,000	-
Brian Talbot <sup>(ii)</sup>	n/a	-	-	200,000	200,000	100,000	100,000	-
<b>Total SARs</b>	<b>2,600,000</b>	<b>-</b>	<b>(200,000)</b>	<b>-</b>	<b>2,400,000</b>	<b>2,200,000</b>	<b>2,200,000</b>	<b>-</b>

i. Mr Pensabene resigned as COO on 4 May 2018. "Net Change Other" represents the number of SARs held at this date.

ii. Mr Talbot was appointed Acting COO effective 7 May 2018. Net Change Other" represents the number of SARs held at this date.

No options or rights were forfeited during the prior year due to performance criteria not being achieved. There have been no alterations to the terms and conditions of options or rights awarded as remuneration since their award date.

## SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

The movement during the financial year in the number of ordinary shares in the Company held directly, indirectly or beneficially by each KMP, including their related parties, is as follows:

Shares	Balance at 1 January 2018	Exercise of options/ SARs	Acquisitions / Disposals	Net Change Other	Balance at 31 December 2018
<b>Directors</b>					
Peter Bacchus	50,182	-	-	-	50,182
Florencia Heredia	-	-	-	-	-
Martin Rowley	4,519,346	-	-	-	4,519,346
Anthony Tse	4,743,729	-	-	-	4,743,729
John Turner	25,000	-	-	-	25,000
Jian-Nan Zhang	425,097	-	-	-	425,097
<b>Other KMP</b>					
Mark Pensabene <sup>(i)</sup>	32,500	116,410	-	(148,910)	n/a
Nicholas Rowley	200,000	-	(100,000)	-	100,000
Alan Rule	-	-	-	-	-
Brian Talbot <sup>(ii)</sup>	n/a	-	-	-	-
<b>Total Shares</b>	<b>9,995,854</b>	<b>116,410</b>	<b>(100,000)</b>	<b>(148,910)</b>	<b>9,863,354</b>

i. Mr Pensabene resigned as COO on 4 May 2018. "Net Change Other" represents the number of shares held at this date.

ii. Mr Talbot was appointed Acting COO effective 7 May 2018.

All equity transactions with KMP other than those arising from the exercise of remuneration options and rights have been entered into under terms and conditions no more favorable than those the Group would have adopted if dealing at arm's length.

## ADDITIONAL DISCLOSURES RELATING TO KMP

### Loans to KMP and their related parties

There were no loans made to any KMP and/or their related parties during the current or prior years.

### Other transactions with KMP

The Group acquired the following goods and services from entities that are controlled by members of the Group's KMP:

- ◆ Financial services totaling US\$35,263 (2017: US\$38,330) were provided to the Group by Bacchus Capital Advisers Ltd. Bacchus Capital Advisers are a related party of Peter Bacchus.
- ◆ Legal services totaling US\$227,414 (including US\$10,864 unpaid at year end) (2017: US\$118,310) were provided to the Group by Fasken Martineau DuMoulin LLP. Fasken Martineau DuMoulin LLP are a related party of John Turner.
- ◆ Legal services totaling US\$631,946 (including US\$329,050 unpaid at year end) (2017: nil) were provided to the Group by Allende & Brae. Allende & Brae are a related party of Florencia Heredia.
- ◆ An amount of US\$7,441 (2017: US\$7,797) was payable to New Haven Learning Centre at 31 December 2018 for sponsorship of an event. New Haven Learning Centre are a related party of John Turner.

### End of Remuneration Report

Signed in accordance with a resolution of the Directors.



**Anthony Tse**  
Chief Executive Officer & Managing Director

Dated at Perth on 28 February 2019



### *Auditor's Independence Declaration*

As lead auditor for the audit of Galaxy Resources Limited for the year ended 31 December 2018, 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 that reads "Nick Henry".

Nick Henry  
Partner  
PricewaterhouseCoopers

Perth  
28 February 2019

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# CONSOLIDATED FINANCIAL STATEMENTS



For the year ended  
31 December 2018

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**Consolidated Statement of Comprehensive Income**

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**Consolidated Statement of Financial Position**

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**Consolidated Statement of Changes in Equity**

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**Consolidated Statement of Cash Flows**



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2018**

	Note	2018 US\$'000	Restated 2017 US\$'000
Operating sales revenue	2	153,929	96,287
Cost of sales	2	(128,506)	(70,587)
<b>Gross Profit</b>		<b>25,423</b>	<b>25,700</b>
Gain on sale of exploration and evaluation assets	13	223,025	-
Other income	2	4,594	1,931
Other expenses	2	(17,511)	(18,469)
<b>Profit Before Income Tax and Net Finance Expenses</b>		<b>235,531</b>	<b>9,162</b>
Finance income	5	814	411
Finance expenses	5	(543)	(4,847)
<b>Profit Before Tax</b>		<b>235,802</b>	<b>4,726</b>
Income tax (expense)	16	(85,579)	(4,599)
<b>Profit After Income Tax for the Year</b>		<b>150,223</b>	<b>127</b>
<b>Profit Attributable to Members of the Parent</b>		<b>150,223</b>	<b>127</b>
<b>Other Comprehensive Income/(Loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences	7	(35,044)	24,630
<i>Items that will not be reclassified to profit or loss</i>			
Changes in the fair value of financial assets designated at fair value through other comprehensive income	7	(15,104)	13,189
Income tax relating to revaluation of financial assets	7	4,490	(3,957)
<b>Other Comprehensive Income/(Loss) for the Period, Net of Tax</b>		<b>(45,658)</b>	<b>33,862</b>
<b>Total Comprehensive Income After Income Tax</b>		<b>104,565</b>	<b>33,989</b>
<b>Total Comprehensive Income After Income Tax Attributable to Members of the Parent</b>		<b>104,565</b>	<b>33,989</b>
<b>Earnings per share attributable to the ordinary equity holders of the Company</b>			
Basic income per share (cents per share)	3	36.871	0.032
Diluted income per share (cents per share)	3	36.551	0.032

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 31 December 2018**

	Note	2018 US\$'000	Restated 2017 US\$'000	Restated 2016 US\$'000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	4	24,755	46,629	6,715
Trade and other receivables	8	278,703	13,147	1,345
Inventories	9	16,708	8,958	8,249
Other current assets		1,456	705	212
<b>Total Current Assets</b>		<b>321,622</b>	<b>69,439</b>	<b>16,521</b>
<b>NON-CURRENT ASSETS</b>				
Financial assets	11	15,542	15,846	-
Property, plant and equipment	12	213,374	251,043	247,297
Exploration and evaluation assets	13	81,644	102,029	88,692
Deferred tax asset	16	33,344	41,850	46,574
Other non-current assets		1,611	-	-
<b>Total Non-Current Assets</b>		<b>345,515</b>	<b>410,768</b>	<b>382,563</b>
<b>Total Assets</b>		<b>667,137</b>	<b>480,207</b>	<b>399,084</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	10	34,611	23,808	10,139
Deferred income		-	-	13,229
Provisions	15	6,569	393	127
Income tax payable		67,343	-	-
Interest-bearing liabilities	5	-	-	28,974
<b>Total Current Liabilities</b>		<b>108,523</b>	<b>24,201</b>	<b>52,469</b>
<b>NON-CURRENT LIABILITIES</b>				
Trade and other payables	10	-	1,741	-
Provisions	15	4,962	8,320	6,065
<b>Total Non-Current Liabilities</b>		<b>4,962</b>	<b>10,061</b>	<b>6,065</b>
<b>Total Liabilities</b>		<b>113,485</b>	<b>34,262</b>	<b>58,534</b>
<b>Net Assets</b>		<b>553,652</b>	<b>445,945</b>	<b>340,550</b>
<b>EQUITY</b>				
Contributed equity	7	673,801	668,111	595,465
Reserves	7	(2,447)	45,759	13,891
Accumulated Losses		(117,702)	(267,925)	(268,806)
<b>Total Equity</b>		<b>553,652</b>	<b>445,945</b>	<b>340,550</b>

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 2018**

	Contributed Equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total US\$'000
<b>Balance at 1 January 2017 – Restated</b>	<b>595,465</b>	<b>13,891</b>	<b>(268,806)</b>	<b>340,550</b>
Profit for the year	-	-	127	127
Other comprehensive income	-	33,862	-	33,862
<b>Total comprehensive income</b>	<b>-</b>	<b>33,862</b>	<b>127</b>	<b>33,989</b>
<i>Transactions with owners in their capacity as owners:</i>				
Placement	47,626	-	-	47,626
Transaction costs arising on share issue	(2,038)	-	-	(2,038)
Exercise of share options	14,430	-	-	14,430
Transfer of reserve upon exercise of option	10,452	(10,452)	-	-
Transfer of reserve upon forfeit of options	-	(754)	754	-
Share-based payment transactions	2,176	9,212	-	11,388
<b>Balance at 31 December 2017 – Restated</b>	<b>668,111</b>	<b>45,759</b>	<b>(267,925)</b>	<b>445,945</b>
Profit for the year	-	-	150,223	150,223
Other comprehensive income/(loss)	-	(45,658)	-	(45,658)
<b>Total comprehensive income</b>	<b>-</b>	<b>(45,658)</b>	<b>150,223</b>	<b>104,565</b>
<i>Transactions with owners in their capacity as owners:</i>				
Transfer of reserve upon exercise of option	5,468	(5,468)	-	-
Share-based payment transactions	222	2,920	-	3,142
<b>Balance at 31 December 2018</b>	<b>673,801</b>	<b>(2,447)</b>	<b>(117,702)</b>	<b>553,652</b>

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 2018**

	Note	2018 US\$'000	Restated 2017 US\$'000
<b>OPERATING ACTIVITIES</b>			
Receipts from customers		154,920	79,856
Payments to suppliers, contractors and employees		(97,153)	(36,093)
<b>Net Cash Inflow from Operating Activities</b>	4	<b>57,767</b>	<b>43,763</b>
<b>INVESTING ACTIVITIES</b>			
Interest received		812	305
Sales proceeds from pre-production		-	9,850
Payments for property, plant and equipment		(29,750)	(27,474)
Proceeds from sale of other non-current assets		77	1,852
Payments for financial assets		(22,377)	(2,610)
Proceeds from disposal of financial assets		6,215	-
Payments for exploration and evaluation assets		(17,594)	(8,873)
Payments for transaction costs on sale of exploration and evaluation assets	13(a)	(14,500)	-
<b>Net Cash (Outflow) from Investing Activities</b>		<b>(77,117)</b>	<b>(26,950)</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds from issue of shares, net of transaction costs		-	58,517
Bank charges, withholding tax and interest paid		(56)	(1,017)
Proceeds from borrowings		-	10,029
Repayments of borrowings		-	(44,142)
Transaction costs related to loans and borrowings		(619)	(538)
<b>Net Cash (Outflow)/Inflow from Financing Activities</b>		<b>(675)</b>	<b>22,849</b>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		<b>(20,025)</b>	<b>39,662</b>
Cash and cash equivalents at the beginning of the period		46,629	6,715
Effect of foreign exchange rate changes		(1,849)	252
<b>Cash and Cash Equivalents at the End of the Period</b>	4	<b>24,755</b>	<b>46,629</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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# BASIS OF PREPARATION

Galaxy Resources Limited ("Company") is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange (trading under the symbol 'GXY'). The Company's registered office and its principal place of business is Level 4, 21 Kintail Road, Applecross, WA.

The consolidated financial statements of the Company for the year ended 31 December 2018 comprise the Company and the entities it controlled ("Group").

A description of the nature of operations and principal activities of the Group is included in the Directors' Report, which is not part of these financial statements.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB's") and complies with International Financial Reporting Standards ("IFRS") and interpretations as issued by the International Accounting Standards Board ("IASB");
- has been prepared on a historical cost basis, except for certain assets and liabilities and share-based payments which are required to be measured at fair value. The basis of measurement is discussed further in the individual notes;
- is presented in United States dollars (previously Australian dollars – refer to note 25 for further details) with all values rounded to the nearest thousand dollars (US\$'000) unless otherwise stated, in accordance with ASIC Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 January 2018. Refer to note 25 for further details; and
- does not early adopt Accounting Standards and Interpretations that have been issued or amended but are not yet effective. Refer to note 25 for further details.

## Principles of consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) at year-end is contained in note 23.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting that may exist.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-Group transactions have been eliminated. Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

## Foreign currencies

The functional currency of the Company is Australian dollars. The functional currencies of subsidiaries are listed in note 23. As at the reporting date, the assets and liabilities of subsidiaries with functional currencies other than US dollars, are translated into US dollars at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the application of these procedures are taken to the income statement.

## Other accounting policies

Significant and other accounting policies that summarize the measurement basis used and which are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements. Where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

## Use of estimates and judgements

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgments and estimates which are material to the financial report are found in the following notes:

Note 2	Units-of-production method of depreciation and amortization	Page 62
Note 9	Recognition and measurement of inventories	Page 76
Note 13	Recognition and measurement of POSCO transaction	Page 81
Note 13	Impairment of exploration and evaluation assets	Page 81
Note 14	Ore reserves and resources	Page 82
Note 14	Impairment or non-financial assets and impairment reversals	Page 82
Note 15	Provisions for rehabilitation	Page 84
Note 16	Recoverability and measurement of current and deferred tax assets	Page 87
Note 19	Share-based payment expenses	Page 92

# FINANCIAL PERFORMANCE

This section focuses on the results and performance of the Group. This covers both profitability and the resultant return to shareholders via earnings per share.

## 1. SEGMENT INFORMATION

During the period the Group has managed its businesses by geographic location, which resulted in four operating and reportable segments for its Corporate, Australian, Argentinian and Canadian operations as set out below. This is consistent with the way in which information is reported internally to the Group's Managing Director (Chief Operating Decision Maker ("CODM")) for the purposes of resource allocation and performance assessment.

- The Australian operation includes the development and operation of the Mt Cattlin spodumene mine and exploration for minerals.
- The Argentinian operation includes the development of the Sal de Vida project and exploration for minerals.
- The Canadian operation includes the development of the James Bay project and exploration for minerals.

Segment performance is evaluated based on Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") which is allocated to the reportable segments according to the geographic location in which the item arose or relates to. This includes both directly attributable items and those that can be allocated on a reasonable basis. EBITDA is a non-IFRS measure that has been included to assist management to better understand the performance of the business.

## 1. SEGMENT INFORMATION (Continued)

Segment assets include property, plant and equipment and exploration and evaluation assets. The geographical location of the segment assets is based on the physical location of the assets.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The following table presents financial information for reportable segments for the years ended 31 December 2018 and 31 December 2017:

Continuing Operations	Corporate US\$'000	Australia US\$'000	Argentina US\$'000	Canada US\$'000	Consolidated US\$'000
<b>2018</b>					
<i>Segment Result</i>					
Segment revenue <sup>(i)</sup>	-	153,929	-	-	<b>153,929</b>
<b>EBITDA</b>	<b>(9,604)</b>	<b>70,517</b>	<b>223,025</b>	<b>(2,768)</b>	<b>281,170</b>
Finance income	37	776	-	1	<b>814</b>
Finance expenses	(425)	(111)	(2)	(5)	<b>(543)</b>
Depreciation and amortization	(116)	(45,094)	(377)	(52)	<b>(45,639)</b>
<b>Profit/(Loss) Before Income Tax</b>	<b>(10,108)</b>	<b>26,088</b>	<b>222,646</b>	<b>(2,824)</b>	<b>235,802</b>
<i>Segment Assets</i>					
Segment assets at balance date	2,068	241,964	336,026	13,438	<b>593,496</b>
Cash and cash equivalents					<b>24,755</b>
Financial assets					<b>15,542</b>
Deferred tax assets					<b>33,344</b>
<b>Total Assets</b>					<b>667,137</b>
<i>Segment Liabilities</i>					
Segment liabilities at balance date	5,230	24,546	77,404	6,305	<b>113,485</b>
Interest-bearing liabilities					-
<b>Total Liabilities</b>					<b>113,485</b>
<i>Other Disclosures</i>					
Capital expenditure for the year	554	32,832	28,926	7,110	<b>69,422</b>

i. Inter-segment revenue for the period ended 31 December 2017 is US\$Nil.

## 1. SEGMENT INFORMATION (Continued)

Continuing Operations	Corporate US\$'000	Australia US\$'000	Argentina US\$'000	Canada US\$'000	Consolidated US\$'000
<b>2017 – Restated</b>					
<i>Segment Result</i>					
Segment revenue <sup>(i)</sup>	-	96,287	-	-	<b>96,287</b>
<b>EBITDA</b>	<b>(15,320)</b>	<b>46,256</b>	<b>24</b>	<b>(318)</b>	<b>30,642</b>
Finance income	134	277	-	-	<b>411</b>
Finance expenses	(4,837)	-	(2)	(8)	<b>(4,847)</b>
Depreciation and amortization	(61)	(21,310)	(98)	(11)	<b>(21,480)</b>
<b>Profit/(Loss) Before Income Tax</b>	<b>(20,084)</b>	<b>25,223</b>	<b>(76)</b>	<b>(337)</b>	<b>4,726</b>
<i>Segment Assets</i>					
Segment assets at balance date	1,244	275,468	91,496	7,674	<b>375,882</b>
Cash and cash equivalents					46,629
Financial assets					15,846
Deferred tax assets					41,850
<b>Total Assets</b>					<b>480,207</b>
<i>Segment Liabilities</i>					
Segment liabilities at balance date	4,483	24,974	291	4,514	<b>34,262</b>
Interest-bearing liabilities					-
<b>Total Liabilities</b>					<b>34,262</b>
<i>Other Disclosures</i>					
Capital expenditure for the year	664	17,544	5,930	7,238	<b>31,376</b>

i. Inter-segment revenue for the period ended 31 December 2017 is US\$Nil.

## 2. REVENUE AND EXPENSES

### Accounting Policies

#### Revenue from the sale of products and shipping activities

The Group has signed 5 year contracts with customers for the sale of spodumene concentrate from Mt Cattlin that include two performance obligations, being the delivery of spodumene to the vessel for shipment and the delivery of the spodumene to the customers port of discharge on either a "cost insurance freight" ("CIF") or "cost and freights" ("CFR") basis. Accordingly, the Group currently has two sources of revenue being:

- the sale of spodumene concentrate from its Mt Cattlin mine in Western Australia; and
- shipping and insurance costs charged to the customer.

The Group has concluded that revenue from the sale of spodumene is recognized at the point in time when control of the asset is transferred to the customer, which occurs on delivery of the product over the ship's rail on the bill of lading date.

Revenue from shipping and insurance costs are recognized over the period from completion of the bill of lading to the point in which the Group materially fulfills the performance obligation. Certain shipping and insurance revenue that was previously recognised net in cost of sales has been identified as a separate performance obligation upon adoption of the new standard, AASB 15 Revenue. Refer to note 25 for details of the impact of adoption.

## 2. REVENUE AND EXPENSES (Continued)

		2018 US\$'000	Restated 2017 US\$'000
<b>Operating sales revenue</b>			
Sale of spodumene concentrate	(a)	147,482	95,711
Revenue from shipping activities	(b)	6,447	-
Other revenue		-	576
		<b>153,929</b>	<b>96,287</b>

- (a) The transition date from pre-production to commercial operations at Mt Cattlin was 1 May 2017. All proceeds from the sale of 40,052 dmt of spodumene (totalling US\$24.7 million before repayment of customer prepayments of US\$13.5 million) less pre-production cash and non-cash costs (totalling US\$25.9 million) resulted in a net US\$1.2 million cost, associated with lithium spodumene produced prior to 1 May 2017, were capitalized to property, plant and equipment and was therefore not recognized in the profit or loss in the prior year. The sales revenue of US\$95.7 million recognized in profit or loss in 2017 reflects proceeds from the sale of lithium spodumene produced after 1 May 2017 totalling 113,467 dmt.
- (b) Revenue from shipping activities and the associated shipping activities costs are collected from the customer and paid to the supplier by an independent third party. These transactions are non-cash transactions for the purpose of the Statement of Cash Flows.

### Accounting Policies

#### Cost of Sales – Sale of Spodumene and Shipping Activities

Cost of goods sold is the inventory value of each tonne of finished product sold. All production is added to inventory at cost, which includes direct costs and depreciation and amortization, allocated on the basis of ore tonnes mined. The inventory value recognized as cost of goods sold for each tonne of finished product sold is the weighted average cost per tonne for the product sold.

Inventory movement represents the movement in statement of financial position inventory of finished goods, including the non-cash depreciation and amortization components and any net realizable value write-downs.

#### Depreciation

Depreciation of mine specific plant and equipment is charged to the statement of comprehensive income on a unit-of-production basis over the measured and indicated resources of the mine concerned, except in the case of assets whose useful life is shorter than the life of mine, in which case, the straight-line method is used. The unit of account is tonnes of ore processed.

Depreciation of non-mine specific plant and equipment is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life, which for the current and comparative periods were:

- Freehold land: Not depreciated
- Plant and equipment: 2 – 15 years (2017: 3 – 20 years)

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

## 2. REVENUE AND EXPENSES (Continued)

### Amortization

Mine development expenditure is amortized on a unit-of-production basis over the measured and indicated resources of the mine concerned. The unit of account is tonnes of ore mined.

	2018 US\$'000	Restated 2017 US\$'000
<b>Cost of Sales - Sale of Spodumene and Shipping Activities</b>		
<i>Cash costs of production</i>		
Mining costs	(29,935)	(12,339)
Processing costs	(30,526)	(17,484)
Transport costs	(6,072)	(4,252)
Administration and other site costs	(5,205)	(2,284)
<i>Selling and royalty costs</i>		
Royalties	(9,335)	(5,905)
Sales commission	(5,363)	(4,785)
<i>Non-cash costs of production</i>		
Depreciation and amortization	(45,094)	(21,309)
Shipping activities costs	(b) (6,447)	-
Net inventory movement	9,471	(2,229)
	<b>(128,506)</b>	<b>(70,587)</b>

### Key estimates and assumptions

#### Unit-of-production method of depreciation/amortization

The Group uses the unit-of-production basis when depreciating/amortizing life of mine specific assets which results in a depreciation/amortization charge proportionate to the depletion of the anticipated remaining life of mine production. Each item's economic life, which is assessed annually, has due regard for both its physical life limitations and the present assessments of measured and indicated resources of the mine property at which it is located.

	2018 US\$'000	Restated 2017 US\$'000
<b>Other income</b>		
Settlement of legal action following sale of discontinued operations	-	1,931
Net foreign exchange gains	3,734	-
Other income	860	-
	<b>4,594</b>	<b>1,931</b>
<b>Other expenses</b>		
Administration expenses	(14,305)	(17,791)
Depreciation	(545)	(171)
Net foreign exchange loss	-	(254)
Rehabilitation expense	(2,636)	(243)
Other expenses	(25)	(10)
	<b>(17,511)</b>	<b>(18,469)</b>

### 3. EARNINGS PER SHARE

#### Accounting Policy

Earnings per share ("EPS") is the amount of post-tax profit attributable to each share. The Group presents basic and diluted EPS data for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being unlisted employee share options and share appreciation rights on issue.

	2018 US\$'000	Restated 2017 US\$'000
	2018 Thousands	2017 Thousands
<i>Earnings used in calculating EPS</i>		
Profit attributable to the ordinary shareholders of the Company	150,223	127
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares for basic EPS	407,433	392,358
<i>Effects of dilution from:</i>		
Share options	1,403	2,137
Share appreciation rights	2,159	2,187
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>410,995</b>	<b>396,682</b>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements which would impact the above EPS calculations.

### CAPITAL AND RISK MANAGEMENT

This section outlines how the Group manages its capital, related financing costs and its exposure to various financial risks. It explains how these risks affect the Group's financial position and performance and what the Group does to manage these risks.

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and maximize shareholder value.

The Board's policy in relation to capital management is to regularly and consistently monitor future cash flows against expected expenditures for a rolling period of up to 12 months in advance. The Board determines the Group's need for additional funding by way of either share issues or loan funds depending on market conditions at the time. For the purposes of the Group's capital management, capital includes issued capital and all other equity reserves attributable to equity holders of the parent and net financial debt. The Group includes within net debt, interest-bearing loans and borrowings less cash and cash equivalents.

There were no changes in the Group's approach to capital management during the year.

## 4. CASH AND CASH EQUIVALENTS

### Accounting Policy

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Cash at bank earns interest at floating rates based on daily bank deposit rates.

At 31 December 2018, the Group had undrawn, committed borrowing facilities available of US\$40 million (2017: US\$25 million).

	2018 US\$'000	Restated 2017 US\$'000
<i>Cash and cash equivalents in the statements of financial position and cash flows</i>		
Cash at bank and on hand	24,755	46,629

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 6.

	2018 US\$'000	Restated 2017 US\$'000
<i>Reconciliation of profit after income tax to net cash inflow from operating activities</i>		
Profit for the year	150,223	127
<i>Adjustments for:</i>		
Funds received on settlement with Tianqi	-	(1,931)
Gain on sale of exploration and evaluation assets	(223,025)	-
Depreciation and amortization	45,639	21,480
Net finance (income) costs	(270)	5,259
Impairment expense	-	4
Share-based payments	2,920	9,212
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	4,447	(11,481)
(Increase)/decrease in inventories	(7,750)	2,230
(Increase)/decrease in other current assets	(751)	(467)
Increase/(decrease) in trade and other payables	7,666	199
Increase/(decrease) in income tax payable	67,343	-
Increase/(decrease) in deferred income	-	14,086
Increase/(decrease) in provisions	2,819	448
(Increase)/decrease in deferred tax assets	8,506	4,597
<b>Net cash inflow from operating activities</b>	<b>57,767</b>	<b>43,763</b>

	2018 US\$'000	Restated 2017 US\$'000
<i>Non-cash financing and investing activities</i>		
Issue of shares to acquire tenement	222	-
Issue of shares to advisors of GMM for settlement of transaction advice services	19	2,009

These transactions are not reflected in the statement of cash flows.

## 5. INTEREST-BEARING LIABILITIES, FINANCE INCOME AND COSTS

### Accounting Policies

#### Loans and borrowings

Loans and borrowings are initially recognized at fair value, net of directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of profit or loss.

#### Summary of movement in interest-bearing liabilities

Restated	Secured loan facilities US\$'000	Capitalized finance costs US\$'000	Total US\$'000
<b>Balance 1 January 2017</b>	<b>32,183</b>	<b>(3,209)</b>	<b>28,974</b>
Initial recognition	10,029	(379)	9,650
Interest and financing expense	1,025	3,795	4,820
Interest repayments	(836)	-	(836)
Accrued interest	(122)	-	(122)
Repayment	(44,142)	-	(44,142)
Foreign exchange	1,863	(207)	1,656
<b>Balance 31 December 2017 - Restated</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### BNP Paribas – Secured Loan 2018

In April 2018, the Group entered into an agreement with BNP Paribas for a new secured corporate debt facility for up to US\$40 million. No amounts were drawn on this facility during the year ended 31 December 2018.

#### BNP Paribas – Secured Loan 2017

In February 2017, the Group entered into an agreement with BNP Paribas for a new secured debt facility for up to US\$40 million. US\$10 million was drawn down and fully repaid during 2017. The Facility expired on 31 January 2018.

#### OCP – Secured Loan

The OCP facility was repaid in full in February 2017.

## 5. INTEREST-BEARING LIABILITIES, FINANCE INCOME AND COSTS (Continued)

### Accounting Policies

#### Finance income

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 recognized as it accrues in profit or loss, using the effective interest rate method.

#### Finance costs

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 capitalized 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.

#### Unwinding of discount on provisions

The unwinding of discount on provisions represents the cost associated with the passage of time. Rehabilitation provisions are recognized at the discounted value of the present obligation to restore, dismantle and rehabilitate each mine site with the increase in the provision due to the passage of time being recognized as a finance cost in accordance with the policy described in note 15.

	Note	2018 US\$'000	Restated 2017 US\$'000
<b>Finance income</b>			
Interest income		814	411
<b>Finance expenses</b>			
Interest and finance expense on borrowings		(240)	(1,052)
Amortization of capitalized finance costs		(192)	(3,795)
Unwinding of discount on provisions	15	(111)	-
		<b>(543)</b>	<b>(4,847)</b>

## 6. FINANCIAL RISK MANAGEMENT

The Group holds financial instruments for the following purposes:

- **Financing:** to raise finance for the Group's operations or, in the case of short-term deposits, to invest surplus funds. The principal types of instruments used include bank loans, cash and short-term deposits.
- **Strategic:** to pursue growth and diversification opportunities the Group may acquire investments in listed entities.
- **Operational:** the Group's activities generate financial instruments including cash, receivables and trade payables.
- **Risk management:** to reduce risks arising from the financial instruments described above, including foreign currency hedging instruments.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The Group's holding of these financial instruments exposes it to the following risks:

- Credit risk
- Liquidity risk
- Market risk, including interest rate, exchange rate and equity price risks.

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.

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 organization, financial and operational aspects of the Group's activities.

The Group's Audit and Risk 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.

### Credit risk

Credit risk is the risk of financial loss to the Group if a 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 P-1 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:

<b>Carrying amount</b>	<b>Note</b>	<b>Restated</b>	
		<b>2018</b>	<b>2017</b>
		<b>US\$'000</b>	<b>US\$'000</b>
Trade and other receivables	8	278,703	13,147
Cash and cash equivalents	4	24,755	46,629
		<b>303,458</b>	<b>59,776</b>

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### 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.

The Group uses weekly and monthly cash forecasting to monitor cash flow requirements. Typically, the Group ensures it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

The following table analyses the Group's financial liabilities, including net and gross settled financial instruments, into relevant maturity periods based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and hence will not necessarily reconcile with the amounts disclosed in the statement of financial position.

For derivative liabilities (foreign currency options), the amounts disclosed or the net amounts that would need to be paid if the option expired out of the money. Due to their short-term nature, the amounts have been estimated using the spot exchange rate applicable at reporting date.

**31 December 2018**

	Carrying amount US\$'000	Contractual cash outflows US\$'000	Within			More than 5 years US\$'000
			1 year or on demand US\$'000	1 – 2 years US\$'000	2 – 5 years US\$'000	
Trade and other payables	34,611	34,611	34,611	-	-	-
Secured bank loans	-	-	-	-	-	-
<b>Total</b>	<b>34,611</b>	<b>34,611</b>	<b>34,611</b>	-	-	-

The Company has an undrawn debt facility with BNP of US\$40,000,000 available at year end.

**31 December 2017**

	Carrying amount US\$'000	Contractual cash outflows US\$'000	Within			More than 5 years US\$'000
			1 year or on demand US\$'000	1 – 2 years US\$'000	2 – 5 years US\$'000	
Trade and other payables	25,549	25,549	23,808	1,741	-	-
Secured bank loans	-	-	-	-	-	-
<b>Total</b>	<b>25,549</b>	<b>25,549</b>	<b>23,808</b>	<b>1,741</b>	-	-

### Assets pledged as security

The undrawn debt facility provided by BNP is secured by:

- A first ranking, registered fixed and floating charge over all of the assets of Galaxy Resources Limited and its wholly-owned subsidiaries Galaxy Lithium Australia Limited and General Mining Corporation Limited;
- A first ranking, registered Mining Act (WA) mortgage over the Company's interest in the Mt Cattlin project tenements;
- A fixed charge over the bank accounts; and
- Satisfactory security over Galaxy's rights under key project documents.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates, interest rates and equity prices, will affect the Group 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 optimizing the return.

#### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk on its financial assets and liabilities.

The Group's revenue is primarily denominated in US dollars whereas a material proportion of costs are incurred in Australian dollars and, to a lesser extent, Argentinian Peso and Canadian dollars.

The Group's Statement of Financial Position can also be affected materially by movements in the AUD:USD exchange rate. Managing the exposure to foreign exchange risk is achieved by regularly monitoring the net exposure to ensure it is kept to an acceptable level by buying or selling foreign currency at spot rates where necessary to address short-term imbalances, or occasionally entering into structured foreign currency option arrangements (i.e. zero cost collars) to fix a portion of the Group's AUD:USD exposure to within a Board approved range. No such option arrangements have been used during the current or prior year, however the Group is holding the following zero cost collars at year end:

**31 December 2018**

	Less than 1 month	1 to 3 months	3 to 6 months	9 to 12 months	Total
Zero Cost Collar (Bought Put Option & Sold Call Option)					
Notional amount (US\$'000)	5,000	10,000	15,000	-	30,000
Fixed AUD:USD range	0.716 – 0.735	0.716 – 0.735	0.716 – 0.735	-	

The above contracts, which commence on 1 January 2019, are designated as hedging instruments in cash flow hedges of forecast purchases in AUD. These forecast purchases are highly probable and comprise about 50% of the Group's total expected purchases in AUD. Hedging the foreign currency volatility of expected purchases is in accordance with the risk management strategy outlined by the Board of Directors.

The carrying amount of the above contracts has not been recognized at 31 December 2018 as the amount is immaterial.

The carrying amounts of the Group's US dollar denominated financial assets and liabilities in entities which do not have a US dollar functional currency at the reporting date are as follows:

	2018 US\$'000	2017 US\$'000
<b>Financial assets</b>		
Cash and cash equivalents	20,904	39,197
Trade and other receivables	5,358	11,431
	26,262	50,628
<b>Financial liabilities</b>		
Trade and other payables	419	79
<b>Balance sheet exposure</b>	<b>25,843</b>	<b>50,549</b>

## 6. FINANCIAL RISK MANAGEMENT (Continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
1 AUD:USD	0.748	0.767	0.705	0.780
1 PES:USD	0.037	0.055	0.027	0.054

### 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.

	2018		2017 - Restated	
	Equity	Profit for the period	Equity	Profit for the period
USD \$'000	29,335	1,482	44,594	1

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.

A 10% strengthening of the Argentinian peso 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.

	2018		2017 - Restated	
	Equity	Profit for the period	Equity	Profit for the period
USD \$'000	-	(7,626)	-	-

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

Since repayment of all interest-bearing liabilities in the previous financial year, the Group is only exposed to interest rate risk through its cash deposits which attract variable interest rates. The Group regularly reviews its current working capital requirements against cash balances and the returns available on short-term deposits. There is no significant exposure to interest rate risk at the reporting date.

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

	Restated	
	2018 US\$'000	2017 US\$'000
Cash and cash equivalents	24,755	46,629
Interest rate	0% to 2.75%	0% to 1.75%

### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in market interest rates at reporting date would not affect profit or loss.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

### *Cash flow sensitivity analysis for variable rate instruments*

As at 31 December 2018 a sensitivity analysis has not been disclosed in relation to the variable interest rate cash on deposit as the results have been determined to be immaterial to the statement of comprehensive income. For the year ended 31 December 2017, a decrease of 100 basis points in variable interest rates, with all other variables held constant, would have resulted in a decrease in the Group's net profit before tax of US\$46,000.

### **Equity Price Risk**

The Group's listed and unlisted equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and placing limits on individual and total equity instruments. The Group's Board of Directors reviews and approves all equity investment decisions.

### *Sensitivity Analysis*

The Group has elected to present fair value changes for all equity investments through other comprehensive income, accordingly, a general increase/(decrease) in the securities of 10% at balance sheet dates, would increase/(decrease) the Group's equity by the amounts shown below:

	2018 US\$'000	Restated 2017 US\$'000
Increase of 10%	1,554	1,584
Decrease of 10%	(1,554)	(1,584)

### **Fair Values**

The carrying amounts and estimated fair values of all of the Group's financial instruments recognized in the financial statements are materially the same. The methods and assumptions used to estimate fair value of the financial instruments are disclosed in the respective notes.

### *Valuation of financial instruments*

For all fair value measurements and disclosures, the Group uses the following levels to categorize the method used:

- **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). The Group's derivative liabilities (foreign currency options) and holdings of unlisted options are classified as Level 2 as they were valued using valuation techniques that employ the use of market observable inputs. The most frequently applied valuation techniques include option pricing models incorporating various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rates relevant to the respective currencies. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for the foreign currency options designated in hedge relationships.
- **Level 3:** inputs for the asset or liability that are not based on observable market data. The Group does not have any financial assets or liabilities in this category.

## 6. FINANCIAL RISK MANAGEMENT (Continued)

For financial instruments that are carried at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between levels during the year. The table below shows the Group's financial instruments classified into the three levels prescribed under the accounting standards.

	2018			2017 - Restated		
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Financial assets at FVOCI	15,538	4	-	15,846	-	-

### 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.

## 7. CONTRIBUTED EQUITY AND RESERVES

### Accounting Policy

#### 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.

	2018 Shares	2017 Shares	Restated	
			2018 US\$'000	2017 US\$'000
Fully paid ordinary shares	407,524,024	405,022,009	673,801	668,111

The holders of ordinary shares are entitled to receive dividends as declared from time to time and, on a poll, are entitled to one vote per share at meetings of the Company. The Company does not have authorized capital or par value in respect of its issued shares.

## 7. CONTRIBUTED EQUITY AND RESERVES (Continued)

### Movement in ordinary shares on issue:

	Number of shares	US\$'000
<b>Balance 1 January 2017 - Restated</b>	<b>366,509,165</b>	<b>595,465</b>
Placement	22,600,000	47,626
Exercise of warrants	10,000,000	19,807
Exercise of options	4,881,982	5,242
Shares issued in lieu of services – non-cash	1,029,306	2,009
Transaction costs	-	(2,038)
Share consolidation 5 for 1 – approved at AGM on 18 May 2017	(a) 1,556	-
<b>Balance at 31 December 2017 - Restated</b>	<b>405,022,009</b>	<b>668,111</b>
Issued as consideration for tenement acquisition	93,168	221
Exercise of options	(b) 2,408,847	5,469
<b>Balance at 31 December 2018</b>	<b>407,524,024</b>	<b>673,801</b>

(a) Rounding on consolidation

(b) All options were exercised using the cashless exercise feature available under the IOP. The amount recognized in contributed equity reflects the share-based payments expense previously recognized in the equity-settled payments reserve over the vesting period.

### Reserves

The following table shows the movements in reserves during the current and prior year.

	Equity-settled payments reserve US\$'000	Foreign currency translation reserve US\$'000	Fair value reserve US\$'000	Capital reserve US\$'000	Total reserves US\$'000
<b>Balance at 1 January 2017 – Restated</b>	18,248	(7,980)	-	3,623	<b>13,891</b>
Foreign currency translation differences	-	24,630	-	-	<b>24,630</b>
Change in fair value of financial assets	-	-	13,189	-	<b>13,189</b>
Deferred tax	-	-	(3,957)	-	<b>(3,957)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>24,630</b>	<b>9,232</b>	<b>-</b>	<b>33,862</b>
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payment transactions	9,379	-	-	-	<b>9,379</b>
Transfer of reserve upon:					
- exercise of share options	(4,688)	-	-	-	<b>(4,688)</b>
- exercise of share warrants	(5,589)	-	-	-	<b>(5,589)</b>
- exercise of SARs	(342)	-	-	-	<b>(342)</b>
- forfeit of options	(754)	-	-	-	<b>(754)</b>
<b>Balance at 31 December 2017 – Restated</b>	<b>16,254</b>	<b>16,650</b>	<b>9,232</b>	<b>3,623</b>	<b>45,759</b>

## 7. CONTRIBUTED EQUITY AND RESERVES (Continued)

	<b>Equity-settled payments reserve US\$'000</b>	<b>Foreign currency translation reserve US\$'000</b>	<b>Fair value reserve US\$'000</b>	<b>Capital reserve US\$'000</b>	<b>Total reserves US\$'000</b>
<b>Balance at 1 January 2018</b>	16,254	16,650	9,232	3,623	<b>45,759</b>
Foreign currency translation differences	-	(35,044)	-	-	(35,044)
Change in fair value of financial assets	-	-	(15,104)	-	(15,104)
Deferred tax	-	-	4,490	-	4,490
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>(35,044)</b>	<b>(10,614)</b>	<b>-</b>	<b>(45,658)</b>
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payment transactions	2,920	-	-	-	2,920
Transfer of reserve upon:					
- exercise of share options	(5,286)	-	-	-	(5,286)
- exercise of SARs	(182)	-	-	-	(182)
<b>Balance at 31 December 2018</b>	<b>13,706</b>	<b>(18,394)</b>	<b>(1,382)</b>	<b>3,623</b>	<b>(2,447)</b>

### Nature and purpose of reserves

#### *Equity-settled payment reserve*

The equity-settled payments reserve comprises the portion of the grant date fair value of unexercised share options granted to employees and financiers of the Company that has been recognized in accordance with the accounting policy adopted for share-based payments in note 19.

#### *Foreign currency translation reserve*

The foreign currency reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### *Fair value reserve*

The fair value reserve records fair value changes on financial assets designated at fair value through other comprehensive income ("FVOCI").

#### *Capital reserve*

The capital reserve comprises transactions with owners to acquire non-controlling interests.

# WORKING CAPITAL

This section provides additional information that the Directors consider most relevant to understanding the composition and management of the Group's working capital.

## 8. TRADE AND OTHER RECEIVABLES

### Accounting Policy

Receivables are initially recognized at fair value and subsequently at the amounts considered receivable (financial assets at amortized cost). In order for a financial asset to be classified and measured at amortized cost, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Balances within receivables do not contain impaired assets, are not past due and are expected to be received when due.

Due to the short-term nature of these receivables, their carrying value is assumed to approximate fair value.

	Note	2018 US\$'000	Restated 2017 US\$'000
<i>Current</i>			
Trade receivables		5,961	11,817
Other receivables	(a)	1,128	1,330
Receivable from sale of exploration assets	13(a)	271,614	-
		<b>278,703</b>	<b>13,147</b>

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

## 9. INVENTORIES

### Accounting Policy

Inventories are measured at the lower of cost and net realizable 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.

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

	2018 US\$'000	Restated 2017 US\$'000
<i>Current</i>		
Consumables	2,379	1,646
Spodumene ore	14,329	7,312
	<b>16,708</b>	<b>8,958</b>

### Key estimates and assumptions

#### Recognition and measurement of inventories

Net realizable value tests are performed at each reporting date and represent the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Spodumene ore stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained Li<sub>2</sub>O tonnes based on assay data and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

## 10. TRADE AND OTHER PAYABLES

### Accounting Policies

#### Trade payables

Trade and other payables are initially recognized at the value of the invoice received from a supplier and subsequently measured at amortized cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and generally paid within 30 days of recognition.

	Note	2018 US\$'000	Restated 2017 US\$'000
<i>Current</i>			
Trade payables and accrued expenses		25,514	20,683
Other payable		8,609	2,903
Payroll tax and other statutory payables		488	222
		<b>34,611</b>	<b>23,808</b>
<i>Non-Current</i>			
Trade payables	(a)	-	1,741

(a) Non-current payables relate to a deferred payable to a contractor for services rendered in relation to the Mt Cattlin mine.

## 11. FINANCIAL ASSETS

### Accounting Policy

Financial assets are initially recognized at fair value, plus transaction costs that are directly attributable to its acquisition and subsequently measured at amortized cost or fair value depending on the business model for those assets and the contractual cash flow characteristics.

### Equity Instruments

Equity instruments are normally measured at fair value through profit or loss ("FVTPL") unless the Group chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in other comprehensive income ("FVOCI"). This option is irrevocable and only applies to equity instruments which are neither held for trading nor are contingent consideration in a business combination. Gains and losses on equity instruments measured at FVOCI are not recycled through profit or loss on disposal and there is no impairment accounting. All gains and losses are recorded in equity through other comprehensive income.

	Restated	2018	2017
	US\$'000	US\$'000	US\$'000
Financial assets at fair value through OCI – listed shares		15,538	15,674
Financial assets at fair value through OCI – unlisted options		4	172
		<b>15,542</b>	<b>15,846</b>

### Financial assets at fair value through OCI

During the year, the Group made some strategic investments through the on-market acquisition of shares and exercising of rights pursuant to a rights issue for another company.

At balance date, the Group holds non-controlling interests in these companies which are carried at fair value determined with reference to the published price quoted on the ASX, an active market ("Level 1" fair value measurement for listed shares and "Level 2" for unlisted options). These investments were irrevocably designated at FVOCI as the Group considers them to be strategic in nature.

## KEY BALANCE SHEET ITEMS

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in the Capital and Risk Management section.

### 12. PROPERTY, PLANT AND EQUIPMENT

	Land US\$'000	Plant & Equipment US\$'000	Mine development expenditure US\$'000	Total US\$'000
<i>Cost</i>				
<b>Balance at 1 January 2017 – Restated</b>	1,017	92,470	166,591	260,078
Additions	-	7,727	7,352	15,079
Disposals	-	(20)	-	(20)
Foreign exchange movement	85	7,738	14,159	21,982
<b>Balance at 31 December 2017 – Restated</b>	1,102	107,915	188,102	297,119
Additions	889	29,881	35	<b>30,805</b>
Disposals	-	(383)	-	(383)
Foreign exchange movement	(135)	(11,450)	(18,146)	<b>(29,731)</b>
<b>Balance at 31 December 2018</b>	<b>1,856</b>	<b>125,963</b>	<b>169,991</b>	<b>297,810</b>
<i>Accumulated Depreciation</i>				
<b>Balance at 1 January 2017 – Restated</b>	-	(12,494)	(287)	<b>(12,781)</b>
Depreciation and amortization	-	(10,874)	(20,978)	<b>(31,852)</b>
Disposals	-	11	-	<b>11</b>
Foreign exchange movement	-	(1,191)	(263)	<b>(1,454)</b>
<b>Balance at 31 December 2017 – Restated</b>	-	<b>(24,548)</b>	<b>(21,528)</b>	<b>(46,076)</b>
Depreciation and amortization	-	(14,541)	(31,098)	<b>(45,639)</b>
Disposals	-	201	-	<b>201</b>
Foreign exchange movement	-	3,162	3,916	<b>7,078</b>
<b>Balance at 31 December 2018</b>	-	<b>(35,726)</b>	<b>(48,710)</b>	<b>(84,436)</b>
<i>Net book value</i>				
At 31 December 2017 – Restated	1,102	83,367	166,574	251,043
<b>At 31 December 2018</b>	<b>1,856</b>	<b>90,237</b>	<b>121,281</b>	<b>213,374</b>

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

### Accounting Policies

#### Property, plant and equipment

The value of property, plant and equipment is measured as the cost of the asset, less depreciation and impairment. The cost of the asset also includes the cost of replacing parts that are eligible for capitalization, the cost of major inspections and an initial estimate of the cost of dismantling and removing the item from site at the end of its useful life (rehabilitation provisions). Changes in the rehabilitation provisions resulting from changes in the size or timing of the cost or from changes in the discount rate are also recognized as part of the asset cost.

#### Mine development expenditure

Development expenditure relates to 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). The value of mine development expenditure is measured at cost, less amortization and impairment.

Cost includes:

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

These costs are capitalized to the extent they are expected to be recouped through the successful exploitation of the related mining lease and capitalization ceases once the mining property is capable of commercial production.

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 capitalized as property, plant and equipment.

#### Derecognition

An item of property, plant and equipment or mine development expenditure is derecognized when it is sold or otherwise disposed of, or when its use is expected to bring no further economic benefits. Any gain or loss from derecognizing the asset (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 derecognized.

## 13. EXPLORATION AND EVALUATION ASSETS

### Accounting Policy

#### Recognition and measurement

Exploration and evaluation expenditure is accumulated on an area of interest basis. Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Expenditure is carried forward when incurred for areas for which the Group has rights of tenure and where economic mineralization is indicated, but activities have not yet 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. Costs incurred before the Group has obtained the legal rights to explore an area are recognized in the statement of comprehensive income.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine development expenditure within property, plant and equipment. No amortization is charged during the exploration and evaluation phase.

## 13. EXPLORATION AND EVALUATION ASSETS (Continued)

### Impairment

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to the cash-generating units ("CGUs") to which the exploration activity relates. The CGU is not larger than the area of interest.

### Derecognition

An area of interest (in whole or part) is derecognized when it is sold or otherwise disposed of, or when its use is expected to bring no further economic benefits. Any gain or loss from derecognizing the asset (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 derecognized.

	Australia- Other US\$'000	Australia- Mt Cattlin US\$'000	Argentina- Sal de Vida US\$'000	Canada- James Bay US\$'000	Total US\$'000
<b>Cost</b>					
<b>Balance at 1 January 2017 – Restated</b>	-	3,875	83,313	1,504	<b>88,692</b>
Additions	35	293	3,417	5,256	<b>9,001</b>
Acquisitions	-	39	469	-	<b>508</b>
Impairment	2	-	-	-	<b>2</b>
Foreign exchange movement	-	329	3,263	234	<b>3,826</b>
<b>Balance at 31 December 2017 – Restated</b>					
37	4,536	90,462	6,994	<b>102,029</b>	
Additions	38	4,184	26,686	7,000	<b>37,908</b>
Acquisitions	-	709	-	-	<b>709</b>
Disposals	(a)	(38)	(56,975)	-	<b>(57,013)</b>
Foreign exchange movement	(4)	(646)	(370)	(969)	<b>(1,989)</b>
<b>Balance at 31 December 2018</b>	<b>33</b>	<b>8,783</b>	<b>59,803</b>	<b>13,025</b>	<b>81,644</b>

- (a) During the year ended 31 December 2018, Galaxy sold a package of tenements located on the northern area of the Salar del Hombre Muerto in Argentina, for cash consideration of US\$280 million to POSCO. The tenement package is situated to the north of Sal de Vida and contains lithium carbonate equivalent ("LCE") JORC compliant measured, indicated and inferred resources. The amount derecognized from the carrying value of Sal de Vida exploration and evaluation assets of US\$42.4 million represents the pro-rata share of the carrying value of exploration and evaluation assets based on LCE measured, indicated and inferred resources sold to POSCO. The table below provides details of the pre-tax net gain on sale recognized in the statement of profit or loss as a result of this transaction:

	2018 US\$'000
Proceeds on sale	280,000
Transaction costs	(5,775)
Turnover taxes paid	(8,762)
Carrying value of exploration and evaluation assets sold	(42,438)
Total exploration and evaluation asset cost derecognized on disposal	<b>(56,975)</b>
<b>Gain on sale – pre tax</b>	<b>223,025</b>

The amount receivable from the sale of exploration assets disclosed in note 8 of US\$271.6 million represents the total sale proceeds of US\$280 million less withholding tax paid in Argentina of US\$8.4 million. This withholding tax payment is the first instalment of income tax payable.

## 13. EXPLORATION AND EVALUATION ASSETS (Continued)

Critical judgements
Recognition and measurement of POSCO transaction
<p>The recognition of the POSCO transaction required the Group to exercise significant judgement in determining the date of disposal and carrying value of exploration and evaluation assets sold. As the assets sold represent a portion of the Sal de Vida project area of interest, judgement was required to allocate historical costs carried forward to the disposal. The Group determined that the proportion of total LCE Resources (measured, indicated and inferred) contained within the tenements sold provided the most reasonable basis for allocating costs.</p> <p>Accounting Standards consider the date of disposal to be the date that the recipient obtains control in accordance with the requirements for determining when a performance obligation is satisfied in AASB 15 <i>Revenue from Contracts with Customers</i>. There were a number of performance obligations and conditions precedent to complete the Tenement Sale Agreement with POSCO and for the transaction to be recognized in the financial results for the year. As at 31 December 2018, the Group determined the performance obligations were substantially complete and control of the assets had passed to POSCO and the transaction was recognized as disclosed above.</p>

Key estimates and assumptions
Impairment of exploration and evaluation assets
<p>Determining the recoverability of exploration and evaluation assets capitalized in accordance with the Group's accounting policy 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 14), 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 capitalized 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.</p>

## 14. IMPAIRMENT OF NON-FINANCIAL ASSETS

### Accounting Policy

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 recognized if the carrying amount of an asset or its related 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 utilized 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 recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

## 14. IMPAIRMENT OF NON-FINANCIAL ASSETS (Continued)

### Reversal of impairment for property, plant and equipment

Impairment losses recognized 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 and amortization, if no impairment loss had been recognized.

#### 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. 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.

#### Key estimates and assumptions

##### Ore reserves and resources

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 prepares 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.

## 15. PROVISIONS

### Accounting Policy

Provisions are recognized 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 recognized as a finance cost.

### Provision for rehabilitation

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site rehabilitation is recognized 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.

When the liability is initially recognized, the estimated cost is capitalized by increasing the carrying amount of the related mining assets. At each reporting date the site rehabilitation provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Additional disturbances or changes in rehabilitation costs will be recognized as additions or changes to the corresponding asset and rehabilitation provision, prospectively from the date of change. For closed sites, or where the carrying value of the related asset has been reduced to nil either through depreciation and amortization or impairment, changes to estimated costs are recognized immediately in profit or loss.

## 15. PROVISIONS (Continued)

### Employee entitlements

A current liability is recognized for the amount expected to be paid to an employee for annual leave they are presently entitled to as a result of past service. The liability includes allowances for on-costs such as superannuation and payroll taxes, as well as any future salary and wage increases that the employee may reasonably be entitled to.

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service up to reporting date, plus related on costs. The benefit is discounted to determine its present value and the discount rate is the yield at reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

	2018 US\$'000	Restated 2017 US\$'000
<b>Current</b>		
Employee benefits	719	393
Rehabilitation	(a) 5,850	-
	<b>6,569</b>	<b>393</b>
<b>Non-current</b>		
Employee benefits	50	23
Rehabilitation	(a) 4,912	8,297
	<b>4,962</b>	<b>8,320</b>
<i>(a) Provision for rehabilitation</i>		
Balance at 1 January	8,297	6,041
Additional provision charged to property, plant and equipment	34	1,517
Charged/(credited) to profit or loss:		
Additional provisions recognized	2,636	243
Unwinding of discount	111	-
Amounts used during the year	(29)	-
Foreign exchange movement	(287)	496
	<b>10,762</b>	<b>8,297</b>

## 15. PROVISIONS (Continued)

### Nature and purpose of provision for rehabilitation

Non-current provisions mainly relate to the Group's rehabilitation obligations in Australia and Canada. Such activities include dismantling infrastructure, removal and treatment of waste material, and land rehabilitation, including recontouring, top soiling and revegetation of the disturbed area.

#### Australia

A provision of US\$4,348,000 (2017: US\$4,682,000) has been recognized in respect of the rehabilitation obligations for Mt Cattlin.

#### Canada

A provision of US\$5,850,000 (2017: US\$3,615,000) has been recognized in respect of the restoration of the tailings site at a former Lithium One Inc. mining site in Canada. The timing and amount of the rehabilitation is subject to negotiations with government authorities in Québec but is expected to be incurred during 2019.

Key estimates and assumptions
Rehabilitation obligations
Determining the cost of rehabilitation, decommissioning and restoration of the area disturbed during mining activities 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 recognized for each site is reviewed at each reporting date and updated based on the facts and circumstances available at the time.

# TAXATION

## 16. INCOME TAX

### Accounting Policy

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

#### Current Tax

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

	2018 US\$'000	Restated 2017 US\$'000
<i>A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Group's applicable income tax rate is as follows:</i>		
Accounting profit before income tax	235,802	4,726
At Australia's statutory income tax rate of 30% (2017:30%)	(70,740)	(1,417)
Tax effect of amounts which are not (deductible)/taxable in calculating taxable income:		
Non-deductible costs of tenement sale	(6,779)	-
Share-based payments	(907)	(2,764)
Other non-deductible expenses	(3,157)	(249)
Non-assessable income	-	273
Tax effect on temporary differences brought to account	-	(389)
Deferred tax assets utilized/(not brought to account)	(1,579)	333
Adjustments in respect of income tax of previous years	(1,828)	(386)
Foreign exchange	(589)	-
<b>Income tax (expense) reported in the statement of comprehensive income</b>	<b>(85,579)</b>	<b>(4,599)</b>
<i>The components of income tax expense are:</i>		
Current income tax expense	(77,199)	-
Deferred income tax expense	(8,380)	(4,599)
	<b>(85,579)</b>	<b>(4,599)</b>

## 16. INCOME TAX (Continued)

### Accounting Policy

#### Deferred Tax

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 income tax liabilities are recognized for all taxable temporary differences, other than for the exemptions permitted under accounting standards. At 31 December 2018 there are no unrecognized temporary differences associated with the Group's investment in subsidiaries (2017: US\$nil).

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be available to utilize these deductible temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by reporting date. Deferred tax assets and liabilities are only 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 realized simultaneously.

#### Recognized deferred tax assets and liabilities

Deferred tax at 31 December relates to the following:

	2018 US\$'000	Restated 2017 US\$'000
<b>Deferred tax liabilities</b>		
Receivables	80	-
Inventory	1,920	-
Prepayments and other current assets	30	-
Financial assets	-	3,957
Property, plant and equipment	9,027	12,811
Exploration and evaluation expenditure	1,900	810
Unrealized foreign exchange gains	2,215	-
Gross deferred tax liabilities	15,172	17,578
Set off of deferred tax liabilities	(15,172)	(17,578)
<b>Net deferred tax liabilities</b>	-	-
<b>Deferred tax assets</b>		
Inventories	-	256
Financial assets	850	-
Payables	94	-
Provisions	1,504	1,061
Expenses deductible over time	376	196
Unrealized foreign exchange losses	-	763
Tax losses carried forward	(a) 45,692	57,152
<b>Gross deferred tax assets</b>	<b>48,516</b>	<b>59,428</b>
Set off of deferred tax liabilities	(15,172)	(17,578)
<b>Net deferred tax assets</b>	<b>33,344</b>	<b>41,850</b>

(a) Deferred tax assets of US\$45.7 million (2017: US\$57.2 million) have been recognized in relation to unused tax losses, due to taxable income being forecast in the future from the Mt Cattlin operations.

## 16. INCOME TAX (Continued)

Key estimates and assumptions
Recoverability and measurement of current and deferred tax assets
Recognition of deferred tax assets, including those related to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilized and the application of existing tax laws in each relevant jurisdiction. Actual utilization of tax losses will be dependent on the Company passing the continuity of ownership test. If the Company fails this test, then the same business test criteria will have to be met. Failure to meet the criteria of either test will put at risk tax losses recognized as deferred tax assets of US\$45.7 million (2017: US\$57.2 million).

### 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. On 29 September 2016, General Mining Corporation Limited entered the tax consolidated group. The head entity of the tax consolidated group is Galaxy Resources Limited.

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.

### 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 recognized as an increase or decrease in the controlled entities' intercompany accounts with the tax consolidated group head company, Galaxy Resources Limited.

### Other Taxes

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

Revenues, expenses and assets are recognized 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 recognized 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.

## UNRECOGNIZED ITEMS

This section of the notes provides information about items that are not recognized in the financial statements as they do not satisfy the recognition criteria.

## 17. COMMITMENTS AND CONTINGENCIES

### Capital Commitments

#### Mining tenements

In order to maintain current rights of tenure to mining tenements, the Group will be required to perform exploration work to meet the minimum expenditure requirements. 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.

The estimated exploration expenditure commitment for the ensuing years, but not recognized as a liability in the statement of financial position is as follows:

	2018 US\$'000	2017 US\$'000	Restated
Within one year	2,747	8,938	
More than one year but less than five years	6,966	18,848	
	<b>9,713</b>	<b>27,786</b>	

### Non-Cancellable Operating Leases

#### Group as a lessee

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 have expired. None of the leases includes contingent rentals.

Future minimum rentals payable under non-cancellable operating leases at 31 December are as follows:

	2018 US\$'000	2017 US\$'000	Restated
Within one year	761	271	
More than one year but less than five years	1,336	604	
	<b>2,097</b>	<b>875</b>	

### Contingent Assets and Liabilities

#### Contingent Assets

The Group had no material contingent assets at 31 December 2018 (31 December 2017: Nil) or at the date of this report.

#### Contingent Liabilities

The Group had no material contingent liabilities at 31 December 2018 (31 December 2017: Nil) or at the date of this report.

The Group occasionally receives claims arising from its activities in the normal course of business. It is expected that any liabilities arising from such claims would not have a material effect on the Group's operating results or financial performance.

## 18. EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters set out below, in the interval between the end of the 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:

- Registration of the Salta tenement transfers with the Salta Mining Court was completed on 21 February 2019. This completes the registration process for the POSCO transaction. Galaxy received US\$257.05 million (after deduction of withholding tax of US\$7.95 million paid in November 2018) in sale proceeds from escrow on 25 February 2019. Galaxy anticipates receiving the remaining US\$14.55 million (after deduction of withholding tax of US\$0.45 million paid in November 2018) in sale proceeds from POSCO by 1 March 2019.

## OTHER DISCLOSURES

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

## 19. SHARE BASED PAYMENTS

The Group provides benefits to employees and Directors of the Group through share-based incentives. Employees are paid for their services or incentivized for their performance in part through options or share appreciation rights ("SARs"). The expense arising from these transactions, recognized in Administration Expenses in the profit or loss during the year, was US\$2,920,000 (2017: US\$9,212,000). All share-based incentives granted and outstanding during the year are equity-settled.

### Accounting Policy

#### Equity-settled transactions

The cost of equity-settled transactions with employees is measured using their fair value at the date at which they are granted. In determining the fair value, no account is taken of any performance conditions other than those linked to the price of the shares of Galaxy Resources Limited (market conditions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which any performance conditions (excluding market conditions) are met (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the proportion of the awards that are expected to ultimately vest. No expense is recognized for awards that do not ultimately vest due to a performance condition not being met. The expense is recognized in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. Any increase in the value of the transaction as a result of the modification is recognized as an additional expense.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized is recognized immediately, unless a new award is designated as a replacement, in which case it is treated as a modification as described above.

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.

## 19. SHARE BASED PAYMENTS (Continued)

### Group Share-based Incentive Schemes

#### Long Term Incentive Plan ("LTIP")

The Galaxy Resources LTIP was approved by shareholders at the AGM held on 29 May 2015 and provides for the issue of SARs to assist in the recruitment, reward, retention and motivation eligible persons of the Group. Under the LTIP the Board may issue eligible persons with SARs to acquire shares in the future at an exercise price fixed by the Board on grant of the rights. The vesting of all SARs is subject to service conditions being met whereby the recipient must meet the eligible employee criteria in the LTIP, as well as any other vesting conditions determined by the Board at grant date. SARs expire at the earlier of 5 years from vesting date or any other date determined by the Board and specified at the time of grant.

There were no grants of SARs under the LTIP during the current year (2017: 1,200,000 SARs). The fair value of SARs granted under the LTIP is determined using the Black-Scholes option pricing model with the following inputs:

		2018	2017
Dividend yield (%)		-	0%
Expected volatility (%)	(b)	-	70% – 75%
Risk free interest rate (%)		-	1.97% – 2.20%
Expected life (years)	(a)	-	5 – 7 years
Exercise price (A\$)		-	\$1.765 - \$2.475
Weighted average share price at grant date (A\$)		-	\$1.830
Weighted average fair value at grant date (A\$)		-	\$1.172

(a) The expected life is based on historical data and is not necessarily indicative of exercise patterns that may occur.

(b) The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

#### Incentive Option Plan ("IOP")

The Galaxy Resources IOP was approved by shareholders at the AGM on 18 May 2017 and provides for the issue of options to assist in the recruitment, reward, retention and motivation of eligible persons of the Group. Under the IOP, the Board may issue eligible participants with options to acquire shares in the future at an exercise price that is fixed by the Board on grant of the options. The vesting of all options is subject to service conditions being met whereby the recipient must meet the eligible participant criteria in the IOP, as well as any other vesting conditions determined by the Board at grant date.

During the current year, 900,000 options were granted under the IOP (2017: 17,500,000 options) with the following vesting conditions:

Tranche	%	Vesting Condition
A	30	26 March 2019 being 12 months continuous employment or service from date Option is granted
B	30	26 March 2020 being 24 months continuous employment or service from date Option is granted
C	40	Upon the Directors of the Company deciding to develop the Company's Sal de Vida Project or James Bay Project

## 19. SHARE BASED PAYMENTS (Continued)

The valuation was performed using a Black Scholes model with the following assumptions:

		2018	2017
Number		900,000	17,500,000
Dividend yield (%)		0%	0%
Expected volatility (%)	(b)	61.9% - 75.8%	70% - 75%
Risk free interest rate (%)		0% - 2.11%	1.67% - 2.09%
Expected life of options (years)	(a)	1 - 3 years	2 - 3 years
Option exercise price (A\$)		\$3.660	\$2.780
Weighted average share price at grant date (A\$)		\$3.230	\$2.355
Weighted average fair value at grant date (A\$)		\$1.016	\$1.015

(a) The expected life is based on historical data and is not necessarily indicative of exercise patterns that may occur.

(b) The expected volatility reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

There have been no cancellations or modifications to any of the plans during the current or prior years.

### Movements During the Year

The following table illustrates the number and weighted average exercise price ("WAEP") of, and movements in, share options during the year (excluding SARs):

	2018		2017	
	WAEP A\$	Number '000	WAEP A\$	Number '000
Outstanding at the beginning of the year	2.47	19,475	0.28	75,800
Exercised during the year (a)	0.87	(3,125)	0.61	(32,975)
Forfeited during the year	2.97	(1,875)	1.16	(210)
Consolidated	-	-	-	(40,640)
Granted during the year	3.66	900	2.78	17,500
<b>Outstanding at the end of the year</b>	<b>2.81</b>	<b>15,375</b>	<b>2.47</b>	<b>19,475</b>
<b>Exercisable at the end of the year</b>	<b>2.78</b>	<b>11,250</b>	<b>2.16</b>	<b>9,670</b>

(a) The weighted average share price at the date of exercise of these options was A\$3.75 (2017: A\$3.03).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 1.5 years (2017: 2.2 years).

The weighted average fair value of options granted during the year was A\$1.016 (2017: A\$1.015).

The range of exercise prices for options outstanding at the end of the year was A\$2.78 to A\$3.66 (2017: A\$0.365 to A\$2.78).

### Options and SARs outstanding at 31 December 2018

	Exercise Price		Vested	Unvested	Total
	A\$	Expiry Date			
Unlisted Options	2.78	14 June 2020	11,250,000	3,625,000	14,875,000
Unlisted Options	3.66	1 May 2021	-	500,000	500,000
SARs	n/a	4 - 6 years	2,500,000	400,000	2,900,000

## 19. SHARE BASED PAYMENTS (Continued)

### Options and SARs outstanding at 31 December 2017

	Exercise Price A\$	Expiry Date	Vested	Unvested	Total
Unlisted Options	2.780	14 June 2020	7,195,000	9,805,000	17,000,000
Unlisted Options	0.365	21 September 2018	2,475,000	-	2,475,000
SARs	n/a	5 – 7 years	2,500,000	400,000	2,900,000

#### Key estimates and assumptions

##### Share based payments

The fair value of employee share options and share appreciation rights 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 behavior), 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.

#### Shares

##### Shares in lieu of payment

During the current year, no shares were issued to consultants in lieu of cash settlement for outstanding invoices (2017: 1,029,306 shares). The market value of these shares at the date of grant is disclosed as part of non-cash financing and investing activities in note 4.

## 20. RELATED PARTY TRANSACTIONS

### Key Management Personnel Remuneration

	2018 US\$	Restated 2017 US\$
Salaries and other short-term emoluments	2,165,463	1,530,105
Contributions to retirement benefit schemes	69,602	48,027
Termination payments	142,917	-
Share-based payments	1,908,273	6,267,513
	<b>4,286,255</b>	<b>7,845,645</b>

Detailed remuneration disclosures are provided in the Remuneration Report on pages 40 to 49.

## 20. RELATED PARTY TRANSACTIONS (Continued)

### Other Directors' Interests

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	Purchases from related parties US\$	Amounts owed to related parties US\$
<i>Key management personnel of the Group:</i>		
Other director's interests - 2018	902,064	347,355
Other director's interests - 2017	164,437	-

Amounts owed to related parties are included within trade payables (see note 10).

## 21. PARENT ENTITY DISCLOSURE

The following information relates to the parent entity, Galaxy Resources Limited, as at and for the year ended 31 December 2018. The information presented here has been prepared using consistent accounting policies as detailed in the relevant notes of this report.

	2018 US\$'000	Restated 2017 US\$'000
<i>Result of the parent entity</i>		
Profit for the year	14,878	68,713
Other comprehensive income/(loss)	(57,412)	9,068
<b>Total comprehensive income for the year</b>	<b>(42,534)</b>	<b>77,781</b>
<i>Financial position of parent entity at year end</i>		
Current Assets	49,954	2,378
<b>Total Assets</b>	<b>411,416</b>	<b>450,045</b>
Current Liabilities	5,159	4,418
<b>Total Liabilities</b>	<b>5,201</b>	<b>4,440</b>
<i>Total equity of the parent entity comprising:</i>		
Contributed Equity	673,801	668,111
Reserves	11,070	71,030
Accumulated losses	(278,658)	(293,536)
<b>Total Equity</b>	<b>406,213</b>	<b>445,605</b>

### 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 22 for further details.

## 22. DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 ("ASIC Instrument"), relief has been granted to Galaxy Lithium Australia Limited ("GLAL"), Galaxy Lithium Pty Ltd ("GPL") and General Mining Corporation Limited ("GMM") from the Corporations Act 2001 requirements for the preparation, audit and lodgment of a financial report.

As a condition of the ASIC Instrument, the Company and GLAL entered into a Deed of Cross Guarantee ("Deed") on 19 September 2011. A variation deed was entered into on 20 December 2016 between the Company, GPL, GLAL and GMM (the "Closed Group"). The effect of this Deed is that the Company 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 the Company 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.

GPL was deregistered on 16 December 2018 and has been removed from the Deed and Closed Group.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, of the entities that are members of the Closed Group, after eliminating all intra-Group transactions, are as follows:

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2018 US\$'000	Restated 2017 US\$'000
Revenue	153,929	96,287
Finance income	813	352
Other income	861	1,931
Operating costs	(128,507)	(70,587)
Administration costs	(5,085)	(4,802)
Employment costs	(9,082)	(12,846)
Depreciation	(116)	(61)
Finance costs	(533)	(4,775)
Foreign exchange loss	8,311	(1,680)
Other expenses	(391)	-
Impairment of exploration and evaluation	-	(4)
<b>Profit before taxation</b>	<b>20,200</b>	<b>3,815</b>
Income tax (expense)/benefit	(9,321)	(4,599)
<b>(Loss)/Profit for the year</b>	<b>10,879</b>	<b>(784)</b>
Other comprehensive income/(loss)	(48,078)	9,068
<b>Total comprehensive income for the year</b>	<b>(37,199)</b>	<b>8,284</b>

## 22. DEED OF CROSS GUARANTEE (Continued)

### Consolidated Statement of Financial Position

	2018 US\$'000	Restated 2017 US\$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	21,957	45,824
Trade and other receivables	7,014	13,147
Inventories	16,708	8,958
Other current assets	1,033	309
<b>Total Current Assets</b>	<b>46,712</b>	<b>68,238</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	210,160	249,724
Exploration and evaluation assets	9,143	4,573
Financial assets	15,542	15,846
Trade and other receivables	59,194	27,592
Investments in subsidiaries	67,205	67,205
Deferred tax assets	33,344	41,850
<b>Total Non-Current Assets</b>	<b>394,588</b>	<b>406,790</b>
<b>Total Assets</b>	<b>441,300</b>	<b>475,028</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	24,759	22,595
Provisions	591	375
<b>Total Current Liabilities</b>	<b>25,350</b>	<b>22,970</b>
<b>NON-CURRENT LIABILITIES</b>		
Trade and other payables	-	1,741
Provisions	4,397	4,705
<b>Total Non-Current Liabilities</b>	<b>4,397</b>	<b>6,446</b>
<b>Total Liabilities</b>	<b>29,747</b>	<b>29,416</b>
<b>Net Assets</b>	<b>411,553</b>	<b>445,612</b>
<b>CAPITAL AND RESERVES</b>		
Contributed equity	673,801	668,111
Reserves	32,937	83,565
Accumulated losses	(295,185)	(306,064)
<b>Total Equity</b>	<b>411,553</b>	<b>445,612</b>

## 23. INTERESTS IN OTHER ENTITIES

The following list contains the particulars of all of the subsidiaries of the Company:

<b>Name of company</b>	<b>Country of Incorporation</b>	<b>% Equity Interest</b>		<b>Principal activity</b>
		<b>2018</b>	<b>2017</b>	
Galaxy Lithium Australia Limited	Australia	100%	100%	Mining of Mt Cattlin spodumene
General Mining Corporation Limited	Australia	100%	100%	Mining of Mt Cattlin spodumene
Galaxy Lithium (Ontario) Inc.	Canada	100%	100%	James Bay exploration
Galaxy Lithium (Canada) Inc.	Canada	100%	100%	James Bay exploration
Galaxy Lithium (Sal de Vida) S.A.	Argentina	100%	100%	Sal de Vida exploration and development
Galaxy Resources International Limited	Hong Kong	100%	100%	Investment holding company
Galaxy Lithium Holdings BV	The Netherlands	100%	100%	Investment holding company
Galaxy Lithium One Inc.	Canada	100%	100%	Investment holding company
Galaxy Lithium (US) Inc.	United States	100%	100%	Dormant
Galaxy Lithium One (Québec) Inc.	Canada	100%	100%	Dormant
Golden Cross Company LLC	Mongolia	100%	100%	Dormant
Galaxy Lithium (Colorado) Inc.	United States	100%	100%	Dormant
Galaxy Lithium Pty Limited	Australia	-	100%	Deregistered in 2018
Galaxy Resources Share Plan Pty Limited	Australia	-	100%	Deregistered in 2018
Galaxy Lithium (BC) Limited	Canada	-	100%	Deregistered in 2018
Galaxy Lithium Holdings LLC	United States	-	100%	Deregistered in 2018

All entities utilize the functional currency of the country of incorporation with the exception of Galaxy Lithium (Sal de Vida) S.A. which utilizes US dollars.

## 24. AUDITOR'S REMUNERATION

The auditor of Galaxy Resources Limited is PricewaterhouseCoopers ("PwC") Australia.

		<b>Restated</b>
	<b>2018 US\$</b>	<b>2017 US\$</b>
<i>Amounts received or due and receivable by PwC Australia for:</i>		
An audit or review of the financial report of the entity and any other entity in the consolidated group	210,463	215,661
Non-audit services in relation to the entity and any other entity in the consolidated group		
Tax compliance	10,008	189,853
<b>Total</b>	<b>220,471</b>	<b>405,514</b>
<i>Amounts received or due and receivable by related practices of PwC Australia for:</i>		
An audit or review of financial reports of subsidiaries	105,469	8,719
Non-audit services in relation to subsidiaries		
Tax compliance	410,549	175,400
<b>Total</b>	<b>516,018</b>	<b>184,119</b>
<i>Amounts received or due and receivable by other auditors for:</i>		
Audit or review of financial reports of subsidiaries		
<b>Total auditor's remuneration</b>	<b>736,489</b>	<b>589,633</b>

## 25. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

### Changes in Accounting Policies

The Group made a voluntary change in presentation currency, and applies, for the first time, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* that require restatement of previous financial statements. The nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

#### Change in Presentation Currency

The Group elected to change its presentation currency from Australian dollars to US dollars effective from 1 January 2018. The Group believes that the change will enhance the relevance of the Group's financial information and comparability with Galaxy's industry peer group, the majority of which report in US dollars. This change constitutes a voluntary change in accounting policy and has been applied retrospectively.

Comparative financial information presented in these consolidated financial statements has been translated into US dollars using the procedures outlined below:

- (a) The Statements of Comprehensive Income and Cash Flows have been translated to US dollars using average exchange rates for the relevant period.
- (b) Assets and liabilities in the Statement of Financial Position have been translated to US dollars using the exchange rate at the relevant balance dates.
- (c) The Equity section of the Statement of Financial Position has been converted to US dollars using approximate historical exchange rates.
- (d) The exchange rates used were as follows:

Period End	As at Balance Date	Average for the Period
Year-ended 31 December 2017	0.7805	0.7666
Year-ended 31 December 2016	0.7197	n/a

#### AASB 15 Revenue from Contracts with Customers

AASB 15 supersedes AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted AASB 15 using the modified retrospective method of adoption, electing to apply the Standard retrospectively only to contracts that were not completed contracts at the date of initial application on 1 January 2018. There were no incomplete contracts at 1 January 2018 and consequently, there was no impact on the opening balance of accumulated losses for the year ended 31 December 2018.

The Group has signed 5 year contracts with customers for the sale of spodumene concentrate from Mt Cattlin that include two performance obligations, being the delivery of spodumene to the vessel for shipment and the delivery of the spodumene to the customers port of discharge on either a "cost insurance freight" ("CIF") or "cost and freights" ("CFR") basis. Accordingly, the Group currently has two sources of revenue being:

- the sale of spodumene concentrate from its Mt Cattlin mine in Western Australia; and
- shipping and insurance costs charged to the customer.

## 25. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP (Continued)

The Group has concluded that revenue from the sale of spodumene is recognized at the point in time when control of the asset is transferred to the customer, which occurs on delivery of the product over the ship's rail on the bill of lading date.

Revenue from shipping and insurance costs are recognized over the period from completion of the bill of lading to the point in which the Group materially fulfils the performance obligation. Certain shipping and insurance revenue that was previously recognised net in cost of sales has been identified as a separate performance obligation upon adoption of the new standard.

There has been no material impact on the amounts reported in the Statement of Financial Position or Statement of Cash Flows as a result of adopting AASB 15. Nor has there been any impact on basic and diluted earnings per share.

### AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual reporting periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting. The hedge accounting changes are not applicable to the Group.

#### *Classification and measurement*

Under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Financial assets are then subsequently measured at fair value through profit or loss ("FVTPL"), amortised cost, or fair value through other comprehensive income ("FVOCI").

On adoption of AASB 9, Galaxy has reclassified its financial assets as subsequently measured at amortised cost or fair value depending on the business model for those assets and the contractual cash flow characteristics. There was no change in the classification or measurement of financial liabilities. Under AASB 9, the Group's financial assets of cash and cash equivalents and trade and other receivables are classified as 'financial assets at amortised cost'.

At the date of adoption, the Group had one investment that comprised the available-for-sale financial assets. The Group has made an irrevocable election to classify and subsequently measure this investment at FVOCI with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under AASB 9. At 31 December 2018 and at 31 December 2017, the Group's financial assets comprise investments in quoted equity securities which are measured and carried at fair value and the Group made an irrevocable election at initial recognition (or on transition to AASB 9) to present subsequent changes in FVOCI as the investments are strategic and long-term in nature. The fair value for these financial assets is calculated on a recurring basis at each balance date with reference to quoted prices (unadjusted) in active markets ("Level 1"). There were no movements between levels of the fair value hierarchy during the year ended 31 December 2018.

In relation to the reclassification and measurement of financial assets and liabilities, there was no impact on the Income Statement, Statement of Comprehensive Income, Statement of Financial Position or Statement of Changes in Equity on adoption of AASB 9. Nor has there been any impact on basic and diluted earnings per share.

#### *Impairment*

The adoption of AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward looking expected credit loss ("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the ECL requirements of AASB 9 has not resulted in the recognition of an impairment allowance for the Group's receivables. Accordingly, there was no impact on the Statement of Comprehensive Income, Statement of Financial Position or Statement of Changes in Equity, nor has there been any impact on basic and diluted earnings per share.

## 25. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP (Continued)

### New Standards and Interpretations Issued but Not Yet Effective

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new standards and interpretations, if applicable, when they become effective.

#### AASB 16 Leases

AASB 16 introduces new framework for accounting for leases and will replace AASB 117 *Leases*, AASB *Interpretation 4 Determining whether an Arrangement contains a Lease*, AASB *Interpretation 115 Operating Leases-Incentives* and AASB *Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

#### Transition to AASB 16

The Group has evaluated the impact of current lease arrangements for the lease of office buildings, storage facilities, equipment and other assets. The impact on the balance sheet on this date was an increase in lease related assets, and an increase in lease liabilities of US\$27.2 million.

The Group has implemented the new standard effective from 1 January 2019.

# DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 51 to 99 are in accordance with the *Corporations Act 2001* including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the year ended on that date; and
- (b) the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in the notes to the financial statements on page 56.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 22 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 22.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2018.

This declaration is made in accordance with a resolution of the Directors.



**Anthony Tse**  
Chief Executive Officer & Managing Director

Dated in Perth on 28 February 2019.



## *Independent auditor's report*

To the members of Galaxy Resources Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Galaxy Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended, and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **What we have audited**

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2018
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies, and
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### **Independence**

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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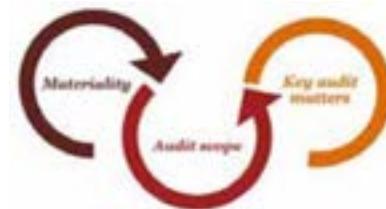


### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group owns three major assets located in Western Australia, Argentina and Canada. The Group has a single operating asset, located at Mt Cattlin in Western Australia, which is producing spodumene concentrate before it is shipped to customers. The Group is progressing its exploration and development activities in Canada and Argentina. The accounting processes are structured around a Group finance function at its corporate head office in Perth, where we predominately performed our audit procedures.



#### **Materiality**

- For the purpose of our audit we used overall Group materiality of \$6.6 million, which represents approximately 1% of the Group's Total Assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- As the Group only has one of its three key assets operating in commercial production, we chose total assets as the materiality benchmark rather than profit before tax. Total assets are more reflective of the Group's size and scale given the significant portion of its assets are still in the exploration and development phase. The use of total assets as a benchmark provides a level of materiality which, in our view, is appropriate for the audit having regard to the expected requirement of users of the Group's financial report.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds for entities of this nature.

#### **Audit Scope**

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Our audit procedures were predominantly performed in Perth where many of the corporate and Group operations functions are centralised. We also visited Mt Cattlin operations during the year.



### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Sale of tenements in Argentina</b>  <i>(Refer to note 13)</i></p> <p>On 29 May 2018, the Group entered into a Tenement Sale Agreement (TSA) with POSCO to sell a package of tenements in the northern basin of the Salar del Hombre Muerto in Argentina for gross proceeds of \$280 million.</p> <p>There were a number of performance obligations and conditions precedent to complete the Tenement Sale Agreement and for the transaction to be recorded in the Group's financial results for the year. At 31 December 2018, the Group considered that the performance obligations of this transaction were substantially complete and recognised \$271 million of proceeds (net of withholding taxes) as receivable, resulting in a gain on sale of \$223 million.</p> <p>This was a key audit matter as judgement was required by the Group to determine whether the performance obligations and conditions precedent to complete the TSA had been substantially completed. Judgement was also required in the determination of the allocation of historical costs to the tenements included in the sales and the tax consequences of the transaction in Argentina.</p>	<p>We obtained and read the TSA to develop an understanding of the performance obligations and conditions precedent in the agreement.</p> <p>Based on this understanding we evaluated the Group's assessment as to which performance obligations and conditions were satisfied or substantially complete as at 31 December 2018.</p> <p>We inspected evidence of the payment of proceeds from POSCO into a joint escrow account, as required by the TSA, during the year. For other amounts receivable, we inspected contractual agreements which conveyed a right to these proceeds to the Group.</p> <p>We evaluated the Group's rationale for the method used to allocate historical costs capitalised to exploration and evaluation assets to the package of tenements subject to the TSA. We assessed this rationale by considering the nature and location of exploration and evaluation activities conducted by the Group in Argentina and by reference to the Resource Statements produced by the Group as a result of these activities.</p> <p>We inspected evidence of the payments of turnover taxes and withholding taxes made by the Group to authorities in Argentina during the year. We also assessed the Group's provision for \$67.3 million of income taxes at year end, assisted by PwC tax experts, in light of relevant tax legislation in Argentina.</p> <p>We evaluated transaction costs paid and accrued by testing a sample of these expenses to relevant supporting documentation.</p> <p>We evaluated the adequacy of the disclosures made in Note 13 in light of the requirements of Australian Accounting Standards.</p>



Key audit matter	How our audit addressed the key audit matter
<p><b>Assessment of impairment indicators for Mt Cattlin</b></p> <p><i>(Refer to note 12 and note 14)</i></p> <p>The Group performed an assessment for impairment indicators across its non-current assets as required by Australian Accounting Standards. As at 31 December 2018, a substantial portion of the \$242.0 million Australian segment assets are attributable to the Mt Cattlin CGU. The Group concluded that there were no indications that the Mt Cattlin CGU was impaired at year end.</p> <p>Relevant indicators of impairment for the mining industry, in which the Group operates, include:</p> <ul style="list-style-type: none"> <li>• long term lithium carbonate pricing</li> <li>• reserve and resource estimates and production and processing volumes</li> <li>• operating costs, capital costs for future developments, foreign exchange rates and inflation rates, and</li> <li>• discount rates.</li> </ul> <p>This was a key audit matter due to Mt Cattlin being the largest non-current asset on the balance sheet and the judgements required and assumptions used in determining whether there were any impairment indicators.</p>	<p>We evaluated the Group's assessment of whether there were any indicators of asset impairment at 31 December 2018 for the Mt Cattlin CGU, including considering whether there were any further impairment indicators for the CGU which are required by Australian Accounting Standards or applicable to the mining industry, which had not been considered by the Group.</p> <p>We applied professional scepticism in our evaluation of judgements made by the Group, by:</p> <ul style="list-style-type: none"> <li>• comparing long term lithium spodumene pricing to external industry forecasts,</li> <li>• comparing resource estimates to Mt Cattlin's latest Resource Statement,</li> <li>• comparing production and processing volumes to historical performance and technical documentation of planned upgrades</li> <li>• comparing operating costs and capital costs to current budgets approved by the Board of Directors,</li> <li>• comparing foreign exchange rate and inflation rate assumptions to current economic forecasts, and</li> <li>• assessing the Group's discount rate calculations, including having regard to the inputs utilised in the Group's weighted average cost of capital.</li> </ul>
<p><b>Implementation of new revenue accounting policy</b></p> <p><i>(Refer to note 25)</i></p> <p>The Group adopted a new revenue accounting policy during the year due to the mandatory introduction of AASB 15 <i>Revenue for Contracts with Customers</i>. The new revenue accounting policy is disclosed in Note 25 and the transition impacts on opening retained earnings of \$nil are disclosed in Note 25.</p> <p>The Group continues to recognise revenue from the sale of spodumene at the point in time when control of asset is transferred to the customer. However, under its new revenue accounting policy, revenue from shipping and insurance costs are recognised over the period from completion of the bill of lading to the point in which the Group materially fulfils the performance obligation.</p>	<p>We developed an understanding of the relevant new and updated key revenue controls implemented by the Group.</p> <p>We then assessed the adequacy of the methodology and transition approach utilised by the Group to determine the extent of contract reviews required to identify the impact of adopting the new revenue accounting policy. We considered accounting papers prepared by the Group on key areas of judgement to determine whether the new revenue accounting policies were in accordance with AASB 15.</p> <p>For a sample of contracts with customers, we reperformed the Group's assessment by:</p> <ul style="list-style-type: none"> <li>• developing an understanding of the key terms of the arrangement including parties, term dates, background of agreement, performance obligations and payments to be made</li> </ul>



<b><i>Key audit matter</i></b>	<b><i>How our audit addressed the key audit matter</i></b>
The adoption of a new revenue accounting policy was a key audit matter due to the significance of revenue to understanding the financial results for users of the financial report and the complexity involved in applying the new revenue recognition requirements given the bespoke nature of terms and conditions in the Group's contracts with customers.	<ul style="list-style-type: none"> <li>considering the Group's identification of performance obligations and allocation of selling prices to the performance obligations by reading the contracts with customers and inspecting sales invoices issued in fulfilling these contracts</li> <li>assessing whether the transaction price was properly allocated using the standalone selling price by agreeing the amount invoiced to customers to the terms of the customer contracts.</li> </ul> <p>We evaluated the adequacy of the disclosures made in Note 25 in light of the requirements of Australian Accounting Standards.</p>

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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



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#### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ari1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ari1.pdf). This description forms part of our auditor's report.

#### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 40 to 49 of the directors' report for the year ended 31 December 2018.

In our opinion, the remuneration report of Galaxy Resources Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

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#### *Responsibilities*

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry

Nick Henry  
Partner

Perth, 28 February 2019

# ASX ADDITIONAL INFORMATION

The information set out below was current as at 22 March 2019.

## TOP TWENTY HOLDERS OF ORDINARY SHARES

Rank	Shareholder	Number of Ordinary Shares Held	% of issued capital
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	77,557,228	19.03
2.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	44,768,731	10.99
3.	CITICORP NOMINEES PTY LIMITED	27,690,739	6.79
4.	NATIONAL NOMINEES LIMITED	23,281,613	5.71
5.	CREAT RESOURCES HOLDINGS LIMITED	7,096,983	1.74
6.	MR ANTHONY PETER TSE	4,743,729	1.16
7.	BNP PARIBAS NOMS PTY LTD <DRP>	4,665,621	1.14
8.	CITOS SUPER PTY LTD <CITOS PTY LTD SF A/C>	3,251,000	0.80
9.	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,774,038	0.68
10.	PURESTEEL HOLDINGS PTY LTD <RATTIGAN SUPER FUND A/C>	2,493,000	0.61
11.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,083,491	0.51
12.	MR PHILLIP RICHARD PERRY	2,041,746	0.50
13.	NERO RESOURCE FUND PTY LTD <NERO RESOURCE FUND A/C>	2,000,000	0.49
14.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,721,736	0.42
15.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,635,935	0.40
16.	JAEGER INVESTMENTS PTY LTD <THE SHELLCOVE (NSW) A/C>	1,600,000	0.39
17.	RHB SECURITIES SINGAPORE PTE LTD <CLIENTS A/C>	1,555,900	0.38
18.	DEVELCO SUPERANNUATION P/L <DEVELCO SUPER FUND A/C>	1,550,000	0.38
19.	BOTSIS HOLDINGS PTY LTD	1,500,000	0.37
20.	ROWLEY SUPER INVESTMENTS PTY LTD <ROWLEY FAMILY SUPER A/C>	1,491,031	0.37
<b>Total</b>		<b>215,502,521</b>	<b>52.88</b>

## SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders as disclosed in substantial shareholding notices given to the Company are:

Name	Number of Ordinary Shares Held	% of issued capital
Ausbil Investment Management Limited	36,642,243	8.99
Blackrock Group (Blackrock Inc. and subsidiaries)	26,185,202*	6.62

\* Note this number reflects the post consolidation holding as the substantial shareholder notice was lodged prior to consolidation.

## RANGE OF SHARES

Range	Total holders	Units	% of issued capital
1 to 1,000	9,534	4,706,442	1.15
1,001 to 5,000	8,918	23,436,437	5.75
5,001 to 10,000	2,575	19,815,111	4.86
10,001 to 100,000	2,659	73,365,298	18.00
100,001 and over	293	286,200,736	70.23
<b>Total</b>	<b>23,979</b>	<b>407,524,024</b>	<b>100.00</b>

## RANGE OF UNLISTED OPTIONS EXERCISABLE AT \$2.78 EACH ON OR BEFORE 14 JUNE 2020 (issued under Incentive Option Plan)

Range	Total holders	Units	% of options on issue
1 to 1,000	0	0	0.00
1,001 to 5,000	0	0	0.00
5,001 to 10,000	0	0	0.00
10,001 to 100,000	2	200,000	1.37
100,001 and over	16	14,375,000	98.63
<b>Total</b>	<b>18</b>	<b>14,575,000</b>	<b>100.00</b>

Note: of the above 14,575,000 options on issue, 3,500,000 have not yet vested.

## RANGE OF UNLISTED OPTIONS EXERCISABLE AT \$3.66 EACH ON OR BEFORE 1 MAY 2021 (issued under Incentive Option Plan)

Range	Total holders	Units	% of options on issue
1 to 1,000	0	0	0.00
1,001 to 5,000	0	0	0.00
5,001 to 10,000	0	0	0.00
10,001 to 100,000	0	0	0.00
100,001 and over	2	500,000	100.00
<b>Total</b>	<b>2</b>	<b>500,000</b>	<b>100.00</b>

Note: None of the above 500,000 options have vested.

## RANGE OF SHARE APPRECIATION RIGHTS (issued under Long Term Incentive Plan)

Range	Total holders	Units	% of SARs on issue
1 to 1,000	0	0	0.00
1,001 to 5,000	0	0	0.00
5,001 to 10,000	0	0	0.00
10,001 to 100,000	1	100,000	3.45
100,001 and over	5	2,800,000	96.55
<b>Total</b>	<b>6</b>	<b>2,900,000</b>	<b>100.00</b>

## VOTING RIGHTS

Galaxy Resources Limited ordinary shares carry voting rights of one vote per share. There are no voting rights attaching to any other class of security.

## UNMARKETABLE PARCELS

	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$1.99 per unit, being the closing market price on 22 March 2019.	252	2,669	433,616

## RESTRICTED AND ESCROWED SECURITIES

The Company does not have any restricted securities or securities subject to voluntary escrow on issue.

## ON-MARKET BUY-BACK

There is no current on-market buy-back.

## MINERAL RESOURCES AND ORE RESERVES

The Mineral Resources and Ore Reserves for each of the Company's projects as at 31 December 2018 together with a summary of the results of the annual review are detailed below. Comparative tables from 31 December 2017 are provided for reference.

### MT CATTIN PROJECT

#### Mineral Resource as at 31 December 2018

Category		Tonnage Mt	Grade % Li <sub>2</sub> O	Grade ppm Ta <sub>2</sub> O <sub>5</sub>	Contained metal ('000) t Li <sub>2</sub> O	Contained metal lbs Ta <sub>2</sub> O <sub>5</sub>
Measured	In-situ	2.20	1.32	208	29.8	1,009,000
Indicated	In-situ	7.20	1.43	165	102.9	2,620,000
	Stockpiles	2.70	0.82	110	22.0	655,000
Inferred	In-situ	4.60	1.30	156	59.7	1,582,000
<b>Total</b>		<b>16.70</b>	<b>1.28</b>	<b>159</b>	<b>214.4</b>	<b>5,866,000</b>

Notes: Reported at cut-off grade of 0.4% Li<sub>2</sub>O. The preceding statements of Mineral Resources conforms to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2012 edition. All tonnages reported are dry metric tonnes. Excludes mineralisation classified as oxide. Transitional mineralisation included at cut-off grade 0.6% Li<sub>2</sub>O. Minor discrepancies may occur due to rounding to appropriate significant figures.

#### Ore Reserve as at 31 December 2018

Category		Tonnage Mt	Grade % Li <sub>2</sub> O	Grade ppm Ta <sub>2</sub> O <sub>5</sub>	Contained metal ('000) t Li <sub>2</sub> O	Contained metal lbs Ta <sub>2</sub> O <sub>5</sub>
Proven	In-situ	6.10	1.28	137	78.0	1,842,000
Probable	In-situ	1.90	1.20	175	22.8	733,000
	Stockpiles	2.70	0.82	110	22.1	655,000
<b>Total</b>		<b>10.70</b>	<b>1.15</b>	<b>137</b>	<b>123.0</b>	<b>3,230,000</b>

Notes: Reported at cut-off grade of 0.4% Li<sub>2</sub>O. The preceding statements of Ore Reserves conforms to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2012 edition. All tonnages reported are dry metric tonnes. Excludes oxide. Transitional mineralisation included at cut-off grade 0.6% Li<sub>2</sub>O. Reported with 17% dilution and 93% mining recovery. Revenue factor USD650/tonne applied. Minor discrepancies may occur due to rounding to appropriate significant figures.

## Mineral Resource as at 31 December 2017

Category		Tonnage Mt	Grade % Li <sub>2</sub> O	Grade ppm Ta <sub>2</sub> O <sub>5</sub>	Contained metal ('000) t Li <sub>2</sub> O	Contained metal lbs Ta <sub>2</sub> O <sub>5</sub>
Measured	In-situ	1.74	1.21	195	21.0	750,000
	Stockpiles	0.14	0.98	107	1.4	30,000
Indicated	In-situ	6.21	1.26	127	78.2	1,740,000
	Stockpiles	1.18	0.81	64	9.6	167,000
Inferred	In-situ	2.35	1.25	181	29.4	940,000
<b>Total</b>		<b>11.62</b>	<b>1.20</b>	<b>141</b>	<b>139.6</b>	<b>3,627,000</b>

Notes: Reported at cut-off grade of 0.4% Li<sub>2</sub>O. The preceding statements of Mineral Resources conforms to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2012 Edition. All tonnages reported are dry metric tonnes. Minor discrepancies may occur due to rounding to appropriate significant figures.

## Ore Reserve as at 31 December 2017

Category		Tonnage Mt	Grade % Li <sub>2</sub> O	Grade ppm Ta <sub>2</sub> O <sub>5</sub>	Contained metal ('000) t Li <sub>2</sub> O	Contained metal lbs Ta <sub>2</sub> O <sub>5</sub>
Proven	In-situ	1.95	1.03	158	20.4	680,000
Probable	In-situ	5.69	1.06	89	60.1	1,120,000
<b>Total</b>		<b>7.64</b>	<b>1.05</b>	<b>107</b>	<b>80.5</b>	<b>1,800,000</b>

Notes: Reported at cut-off grade of 0.4% Li<sub>2</sub>O. The preceding statements of Ore Reserves conforms to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2012 Edition. All tonnages reported are dry metric tonnes. Ore Reserves are reported with 17% dilution and 93% mining recovery. Minor discrepancies may occur due to rounding to appropriate significant figures.

## Summary of results of annual review

As announced on 23 January 2019, the depleted Mt Cattlin Project Mineral Resource and Ore Reserve were both upgraded following drilling activities undertaken during the second half of 2018 and depleted for mining.

The Mineral Resource as at 31 December 2018 reflects drilling completed up to the end of November 2018. The basis on which the Mineral Resource as at 31 December 2018 is reported includes Reasonable Prospects of Eventual Economic Extraction based on a Whittle 4x conceptual pit based on revenue factors of USD900 for spodumene concentrate. Mineral Resource and Ore Reserves include stockpiles produced during mining and beneficiation during 2017 and 2018.

Material changes to the Ore Reserve as at 31 December 2018 are based on depletion for mining, an updated resource estimate and the application of mining and processing modifying factors from mining reconciliation. These factors are 17% mining dilution, 93% mining recovery, 75% process Li<sub>2</sub>O recovery, a lithium concentrate price of USD650 per dry metric tonne and free on board (FOB) from the Port of Esperance. These changes to the modifying factors are based on a study prepared by Mining Plus Pty Ltd.

## JAMES BAY PROJECT

### Mineral Resource as at 31 December 2017 and 31 December 2018

Category	Tonnage Mt	Grade % Li <sub>2</sub> O	Contained metal ('000) t Li <sub>2</sub> O
Indicated	40.30	1.40	564.2

Notes: Reported at a cut-off grade of 0.62 percent Li<sub>2</sub>O inside conceptual pit shells optimized using spodumene concentrate price of US\$905 per tonne containing 6.0% Li<sub>2</sub>O, metallurgical and process recovery of 70%, overall mining and processing costs of US\$55 per tonne milled and overall pit slope of 50 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.

### Summary of annual review results

No further Mineral Resource estimation work was undertaken at the James Bay Project during the year and there was no change to the Mineral Resource to 31 December 2018.

## SAL DE VIDA PROJECT

The Competent Person was engaged to estimate the lithium and potassium resources and reserves in brine for various areas within the Salar de Hombre Muerto basin in accordance with the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC 2012). Although the JORC 2012 standards do not address lithium brines specifically in its guidance documents, the Competent Person followed the (Canadian) National Instrument 43-101 guidelines for lithium brines set forth by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM 2012) which the Competent Person considers complies with the intent of the JORC 2012 guidelines with respect to providing reliable and accurate information for the lithium brine deposit in the Salar del Hombre Muerto.

### Mineral Resource as at 31 December 2018

Category	Brine Volume (m <sup>3</sup> )	Avg. Li (mg/l)	In-situ Li (Tonnes)	Li <sub>2</sub> CO <sub>3</sub> Equivalent (Tonnes)	Avg. K (mg/l)	In-situ K (Tonnes)	KCl Equivalent (Tonnes)
Measured	490,000,000	759	369,000	1,964,000	8,126	3,952,000	7,536,000
Indicated	680,000,000	717	485,000	2,583,000	8,051	5,446,000	10,385,000
Inferred	100,000,000	706	71,000	376,000	6,747	676,000	1,289,000
<b>Total</b>	<b>1,300,000,000</b>	<b>732</b>	<b>925,000</b>	<b>4,923,000</b>	<b>7,976</b>	<b>10,073,000</b>	<b>19,210,000</b>

Note: Assumes 500 mg/L Li cut off.

### Mineral Resource as at 31 December 2017

Category	Brine Volume (m <sup>3</sup> )	Avg. Li (mg/l)	In-situ Li (Tonnes)	Li <sub>2</sub> CO <sub>3</sub> Equivalent (Tonnes)	Avg. K (mg/l)	In-situ K (Tonnes)	KCl Equivalent (Tonnes)
Measured	720,000,000	787	565,000	3,005,000	8,695	6,241,000	11,902,000
Indicated	700,000,000	712	501,000	2,665,000	8,021	5,641,000	10,757,000
Inferred	380,000,000	764	294,000	1,562,000	8,428	3,237,000	6,174,000
<b>Total</b>	<b>1,800,000,000</b>	<b>753</b>	<b>1,360,000</b>	<b>7,232,000</b>	<b>8,377</b>	<b>15,119,000</b>	<b>28,833,000</b>

Note: Assumes 500 mg/L Li cut off.

## Ore Reserve as at 31 December 2017 and 31 December 2018

No changes to the Ore Reserve have occurred in the reporting period.

Reserve Category	Time Period	Li Total Mass (Tonnes)	Equivalent Li <sub>2</sub> CO <sub>3</sub> (Tonnes)	K Total Mass (Tonnes)	Equivalent KCl (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
<b>Total</b>	<b>40 years total</b>	<b>214,000</b>	<b>1,139,000</b>	<b>2,201,000</b>	<b>4,197,000</b>

*Notes: Assumes 500 mg/L Li cut off. Total tonnages for the economic Ore Reserve values above account for anticipated leakage and process losses of lithium and potassium. The results above are 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 m<sup>3</sup>/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.*

### Summary of results of annual review

As announced on 26 November 2018, Galaxy entered into transfer deeds transferring its northern tenement package at the Salar del Hombre Muerto to POSCO. Following completion of the POSCO transaction, Galaxy retained a 100% interest in the tenements situated at the southern area of the Salar del Hombre Muerto in the Catamarca Province. The Mineral Resource for the Sal de Vida project to 31 December 2018 reflects Galaxy's revised tenement holding following finalisation of the POSCO transaction.

The previously reported Ore Reserves at the Sal de Vida Project are located exclusively within the Catamarca tenements retained by Galaxy following completion of the sale to POSCO. As no further Ore Reserve estimation work was undertaken at the Sal de Vida Project during the year, there was no change to the Ore Reserve to 31 December 2018.

## CONTROLS AND GOVERNANCE

Galaxy ensures that quoted Mineral Resource and Ore Reserve estimates are subject to governance arrangements and internal controls at both site and corporate levels. Mineral Resource and Ore Reserves are estimated in accordance with the latest (2012) edition of the JORC Code.

Galaxy stores and collects exploration data using industry standard software that contains both external and internal validation checks. Exploration samples and assay have mineral standards introduced as set ratios. These are reported as necessary to the relevant Competent/Qualified Persons to assess both accuracy and precision in the input data. In resource modelling, models are validated by checking drilling and assay against sample composites and both against blocks and block models. Galaxy engages with expert qualified and competent persons, on a commercial fee for service basis, to undertake resource and reserve modelling. Galaxy internally audits the outcomes independently of the experts to validate both the process and the outcome.

The Company has developed its internal systems and controls to maintain JORC compliance in all external reporting, including the preparation of all reported data by Competent Persons as members of the Australasian Institute of Mining and Metallurgy or a 'Recognised Professional Organisation' (RPO). As set out above, the Mineral Resource and Ore Reserve statements included in this Annual Report were reviewed by suitably qualified Competent Persons (below) prior to their inclusion, in the form and context announced.

## COMPETENT PERSONS STATEMENTS

### Mt Cattlin Project

The information in this Annual Report that relates to the Mt Cattlin 31 December 2017 and 31 December 2018 Exploration Results is based on information compiled by Albert Thamm, M.Sc. F.AusIMM (CP), a Competent Person who is a Corporate Member of The Australasian Institute of Mining and Metallurgy. Albert Thamm is a full-time employee and shareholder of Galaxy Resources Limited. Albert Thamm has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Albert Thamm consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this Annual Report that relates to the Mt Cattlin 31 December 2017 and 31 December 2018 Mineral Resources and Ore Reserves is based on information compiled by David Billington, B. Eng. (Mining), a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. David Billington is a full-time employee of Mining Plus Pty Ltd. David Billington has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. David Billington consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

### James Bay Project

The information in this Annual Report that relates to the James Bay 31 December 2017 and 31 December 2018 Mineral Resources is based on information compiled by Dominic Chartier P.Geo. and Sébastien Bernier, P. Geo, Competent Persons who are both Members of the Ordre des Géologues du Québec, a 'Recognised Professional Organisation' (RPO). At the time the information was compiled, Dominic Chartier and Sébastien Bernier were both full-time employees of SRK Canada Inc. Dominic Chartier and Sébastien Bernier have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dominic Chartier and Sébastien Bernier consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

### Sal de Vida Project

The information in this Annual Report that relates to the Sal de Vida 31 December 2017 and 31 December 2018 Mineral Resources and Ore Reserves is based on information compiled by Michael Rosko, MS PG, a competent person who is a Registered Member of the Society for Mining, Metallurgy & Exploration, Inc. (SME), a 'Recognised Professional Organisation' (RPO). Michael Rosko is a full-time employee of Montgomery & Associates Consultores Limitada and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Michael Rosko consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.





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