

ANNUAL REPORT

Galaxy Resources Limited 2016

ABN 11 071 976 442

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CORPORATE DIRECTORY

BOARD OF DIRECTORS

Mr Martin Rowley (Independent Non-Executive Chairman)
 Mr Anthony Tse (Managing Director)
 Mr Jian-Nan Zhang (Non-Executive Director)
 Mr Peter Bacchus (Non-Executive Director) (appointed 3 January 2017)
 Mr John Turner (Non-Executive Director) (appointed 3 January 2017)
 Mr Charles Whitfield (Executive Director) (resigned 19 August 2016)
 Mr Michael Fotios (Executive Director) (appointed 8 August 2016, resigned 23 December 2016)

COMPANY SECRETARY

Mr Simon Robertson

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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 Website: www.galaxylithium.com

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 Australia

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AUDITORS

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 Level 15, 125 St Georges Terrace
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 Australia

AUSTRALIAN BUSINESS NUMBER

11 071 976 442

SECURITIES EXCHANGE LISTING

ASX Code: GXY



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CHAIRMANS'S LETTER

Dear Fellow Shareholders,

As Chairman of Galaxy Resources Limited it is with much pride and enthusiasm that I present the Company's Annual Report for the twelve months ended 31 December 2016. I said in my Chairman's letter last year that I looked forward to continuing to deliver on our strategy of becoming a leading global lithium producer, while further unlocking and creating value for our shareholders. I am very pleased to report that our achievements this year have even exceeded my expectations. During the year, the market capitalisation of the Company has increased **from \$152m to \$952m** allowing it to be admitted to the S&P/ASX 200 All Ordinaries Index. Galaxy's share price performance in 2016 made it the second best performing stock from the ASX 200 with a 357% share price increase over the year.

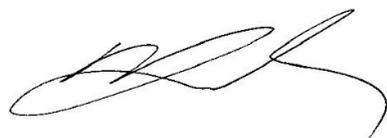
Galaxy became a leading global lithium producer with the restarting of the Mt Cattlin mine in the last quarter of the year and the first shipment of spodumene concentrate production to its Chinese customers. This was after the successful takeover of its Mt Cattlin joint venture partner General Mining Corporation Ltd so that Mt Cattlin became a 100% owned operation again. The Sal de Vida brine project in Argentina and James Bay spodumene project in Quebec Canada, continue to progress towards development decisions with both being recognised as the best undeveloped lithium projects in the world.

We have also completed the balance sheet restructuring commenced by the current management back in June 2013. After the recent equity issue which raised in excess of A\$61 million, the Company is for the first time in a very long time net debt free. The efforts made to transform the balance sheet has been recognised by leading international bank BNP Paribas who has now agreed to provide a highly competitive and flexible funding solution to the Company.

The outlook for lithium pricing remains extremely positive. The prices negotiated for 2017 Mt Cattlin production are records for the industry. With demand forecast to continue to increase over the next few years for lithium-ion batteries for electric car manufacturing and for power storage solutions in particular, the future for your Company now looks very bright.

On behalf of the Board of Directors, I would like to express my sincere appreciation to the executive management team and all staff and contractors for the extraordinary efforts they have all put in over the past twelve months. Without the dedication and commitment of all of these people, we would not have been able to achieve what we have to date.

Yours Sincerely,



Martin Rowley

Chairman - Galaxy Resources Limited

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (the "Group") consisting of Galaxy Resources Limited (the "Company") and the entities it controlled at the end of, or during the year ended 31 December 2016.

DIRECTORS AND COMPANY SECRETARY

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

Mr Martin Rowley	(Independent Non-Executive Chairman)
Mr Anthony Tse	(Managing Director)
Mr Jian-Nan Zhang	(Non-Executive Director)
Mr Peter Bacchus	(Non-Executive Director) (appointed 3 January 2017)
Mr John Turner	(Non-Executive Director) (appointed 3 January 2017)
Mr Charles Whitfield	(Executive Director) (resigned 19 August 2016)
Mr Michael Fotios	(Executive Director) (appointed 8 August 2016, resigned 23 December 2016)

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

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group are:

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

During the year ended 31 December 2016 the Group finalised the re-commissioning of the Mt Cattlin plant. It also continued to progress exploration of its other assets, Sal de Vida and James Bay.

DIVIDENDS

No dividends have been paid by the Company during the year ended 31 December 2016, nor have the Directors recommended that any dividends be paid. (2015: none)

OPERATING RESULTS FOR THE PERIOD

The Group's profit was \$122,706,494 after tax for the year ended 31 December 2016 (2015: \$54,862,456).

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DIRECTORS' REPORT

Review of Operations

2016 - Highlights

- Mt Cattlin recommissioned, production commenced
- Lithium concentrate offtake agreements signed with major Chinese customers
- Agreement finalised to ship out of Esperance port
- Sal de Vida revised DFS confirms robust operation
- Mining contract for Mt Cattlin awarded to Piacentini, mining operations restarted to support project ramp-up
- First vessel nominated for lithium concentrate shipment with first shipment on 2 January 2017
- Galaxy included in ASX 200 All Ordinaries index
- General Mining takeover completed

James Bay, Quebec, Canada Hard Rock

- 100% owned
- Lithium hard rock development
- 23Mt at 1.2% Li₂O
- Targeting to recommence work on DFS in Q1 2017

Sal de Vida, Salta & Catamarca, Argentina – Brine

- 100% owned
- Lithium and potash brine project, 1.1Mt LCE, 4.2Mt KCl
- Formal revision of DFS completed in Q3 2016
- Formation of Owners Team
- Offtake discussions

Mt Cattlin, WA, Australia – Hard Rock

- 100% owned following acquisition of General Mining
- 16Mt at 1.08% Li₂O and 5.7Mlbs Ta₂O₅
- Throughput capacity expanded to 1.6Mtpa
- 24 hour production of lithium concentrate has commenced
- Maiden shipment in January 2017

DIRECTORS' REPORT

Mt Cattlin Operations

The successful recommissioning of the Mt Cattlin Operations was a major milestone achieved during the year. By December, the plant had produced and commenced load out for its first 9,700 tonne shipment of lithium concentrate. This significant achievement of the commissioning phase was coupled with some excellent results reported during the early part of ramp up, with recorded mica and moisture levels of the concentrate produced being far below and well within the required contract specifications and product grade levels being in line with expectations on the first shipment.



During the last quarter, the main focus of work was on the commissioning of the process plant and in parallel a number of major contracts key to supporting future production were awarded. These included the contract to Piacentini for in-pit mining services, as well as the associated drilling and blasting activities; and the contract to Qube Logistics to provide haulage services for transporting the concentrate product to port for export.

Subsequent to the reporting period, a number of previously planned initiatives on projects at Mt Cattlin are underway to bolster throughput, enhance yields and increase grades. This will include completing the refurbishment of the original crushing circuit, as well as finalising the medium and long term water supply contracts. In addition, Mt Cattlin also successfully completed the loading and shipment of its second cargo of lithium concentrate. This batch of product showed an increase in quality when compared to the first, and further indicates the continued improving performance of the processing plant.

As the project enters its steady state operating phase over the coming year, a focus will be placed on establishing the relevant personnel resourcing strategy, to not only support operations but also continuously improve the reliability and output of the plant. Implementation and enhancement of key management systems, which are used to continuously improve performance and reliability of the operations, will also be a priority.

An extensive exploration and drilling program is also being planned at Mt Cattlin and the surrounding areas. This will look to augment the current resource and also optimize the mine planning effort. This is also expected to deliver an increase in anticipated mine life, as well as a potential increase in process plant efficiency.



DIRECTORS' REPORT

James Bay

A project team was assembled with General Mining in the first quarter of 2016, with the objective of reviewing the relevant project and historical exploration information. An initial site visit was then conducted in June to re-familiarise the team with the project and begin planning work ahead of the recommencement of the Definitive Feasibility Study (“DFS”) work. In addition, ore samples were shipped to Australia, so as to allow the Mt Cattlin team to commence test work on the James Bay material. In the fourth quarter of 2016, Galaxy acquired four additional strategic claims in the neighboring proximity of the project.

Subsequent to the reporting period, a second site visit was made in January 2017, where management and the project team also met with WSP Engineering to discuss and outline the objectives and key deliverables for the updated DFS on the James Bay Project.

Activities planned for the coming year at James Bay in a budgeted \$3.5 million program, include the conducting of an extensive drilling program, the commencement of the DFS Environmental Impact Study, both of which will enhance the exploration and development work that has been undertaken to date. The primary objective of the program will be to execute a thorough and multi-faceted diamond-drilling campaign facilitating the continuation of the DFS which was suspended in 2012.

In particular, the DFS continuation will include:

- Environmental and Social Impact Assessment (ESIA) - Phase 1;
- Bulk sampling from existing stockpiles;
- Pilot-plant scale metallurgical test work; and
- Formal revision to the Resources/Reserves of the project incorporating the new data.

Activities at the time of this report are underway and in accordance with the approved budget, and have included engagement of local resources and drilling contractors. Physical work is expected to commence by the end of the first quarter 2017.



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DIRECTORS' REPORT

Sal De Vida

In the first half of 2016, Galaxy Sal de Vida ("Galaxy SDV") engaged Techint, one of the largest engineering and construction firms in Argentina to assist in the formal review on the economics for the DFS of the Sal de Vida Project. The review was to take into account potential adjustments necessary to the financial model as a result of policy and other changes to the economic and operating environment in Argentina, following the changes implemented by new President, Mauricio Macri after his successful election. This period also coincided with the first bi-annual renewal of the Catamarca Province Environmental Impact Declaration (DIA), which involved comprehensive permit documentation being submitted and filed with the Provincial Mining Secretary. The renewal to the DIA was subsequently granted to Galaxy SDV in the first quarter of 2017.

By August 2016, Galaxy SDV had completed the formal revision to the DFS for the Sal de Vida Project, the results of which reaffirmed the strong potential for a low cost and long life operation. The revised DFS estimated a post-tax net present value ("NPV") of US\$1.416 billion at an 8% discount rate. Sal de Vida has the potential to generate average annual revenues of US\$354 million and average operating cash flow of US\$273 million. Average operating costs have been estimated at US\$3,369 per tonne before potash credits and US\$2,959 per tonne after potash credits to produce battery grade lithium carbonate. The revised total capital cost was estimated at US\$376 million.



The capital costs that related to the potash plant and related infrastructure were approximately US\$34 million, with operating cost credit of approximately US\$410 per tonne of lithium carbonate produced. The revised DFS provided for the option of deferring the capital commitment on building the potash circuit subject to potash price market conditions at the time.

Galaxy SDV continued on various community initiatives with the Social License holders, the Coinage Redonda aboriginal community which is located adjacent to the project area. In addition, the team also began hiring its first local personnel from Catamarca and commenced

preparations for setting up an office in San Fernando, the provincial capital.

In preparation for the demo plant initiative, a topographic survey was conducted over certain parts of the Sal de Vida salar to identify suitable locations to support the future plant operations and related evaporation ponds. At the end of the year, initiatives were underway to advance engineering works for the Sal de Vida Demo Plant and following the topographic survey, identify an improved and slightly elevated location for the evaporation ponds as compared to the previous location proposed in the original 2013 DFS. As part of the preparation for the field work to be undertaken at site in the new year, a tender process was initiated to complete multiple production wells finished with proper casing to a depth of approximately 150 meters. These wells are expected to help increase the Galaxy SDV Team's knowledge of the planned production aquifer and provide sufficient brine for filling approximately 50 hectares of evaporation ponds which will be constructed. An initiative was also undertaken to evaluate the potential to utilize renewable energy to generate power on site, with electrical consultants engaged to undertake certain preliminary design work to define a balanced network that would combine thermal and solar photovoltaic energy generation.

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DIRECTORS' REPORT

Exploration

In Australia, with the focus on the project restart at Mt Cattlin, exploration activities were limited during the period. A six-hole diamond drilling program at Mt Cattlin was completed for a total of 3,515m. Highlights included a 5.3-metre-thick pegmatite intercept at 1.51% Li₂O from 376.6m in drill hole MTCDD3 and the same pegmatite horizon with 8.72m @ 1.27% Li₂O from 352.3m was recognized in MTCDD4. This drilling programme established a regional understanding of the Mt Cattlin mineralisation which is open to the east, south and at depth.

Additional geological modelling furthered the understanding of the local geology and follow up extensive drilling will commence in the coming year. Statutory approvals for this are in hand. In addition, the regional Galaxy tenement package and JV tenements have been under review and further exploration and drilling are expected to be undertaken. The General Mining tenement package has been also under review. With the Galaxy focus on lithium, tantalum, and pegmatite exploration, only those tenements with clear lithium focus will be actively progressed.

In Canada at James Bay the existing resource is supported by ~14,000m of drilling. An extensional drilling programme to improve the resource classification and support a DFS has commenced. James Bay is situated 380km from the mining and services centre of Mattagami and is some 800km from Montreal, Quebec. A formal resource upgrade is expected after this program is complete. Other work will include bulk sampling, pilot scale metallurgical test work and initial environmental and social impact studies.



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DIRECTORS' REPORT

- **General Mining Corporation Takeover Complete**

In May 2016, Galaxy announced an Off Market Takeover Bid for General Mining, its previous operating partner in the Mt Cattlin joint venture. This allowed the Company to consolidate 100% of Mt Cattlin creating a leading diversified global lithium producer. The two companies entered into a Definitive Bid Implementation Agreement to merge the two companies resulting in Galaxy acquiring all of the issued shares of General Mining.

General Mining shareholders received 1.65 new Galaxy shares for every 1 General Mining share held, which represented a 9.4% premium to the then 10-day volume weighted average price (VWAP) and 13.5% premium to the then 20-day VWAP to Wednesday 25 May 2016. Based on Galaxy's closing share price of A\$0.395 on the ASX on 25 May 2016 (being the last day General Mining and Galaxy shares traded before the announcement of the Offer), the Offer valued General Mining at approximately A\$216 million on a fully diluted basis.

- **Offtake Agreements Signed**

In February 2016, General Mining and Galaxy announced that it had signed its initial 45,000 tonnes of lithium concentrate offtake with two Chinese customers. The pricing of this offtake was US\$600/t (FOB, at 5.5% Li₂O content, with specifications of less than 5% mica content and 8% moisture) for delivery in 2016. General Mining received 50% of the total contract value of US\$27 million as a prepayment.

By December, Galaxy announced it had signed binding commitments with the two existing Chinese offtake customers for the sale of 120,000 tonnes of lithium concentrate from the Mt Cattlin Project, for delivery in calendar year 2017. Galaxy was able to achieve offtake prices of US\$830 per tonne (FOB, at 5.5% Li₂O content), with customers also agreeing to pay an additional US\$15/t for every 0.1% of Li₂O improvement in the product grade delivered, resulting in an agreed price of up to US\$905/t for a 6% grade lithium concentrate.

Subsequent to the reporting period (in the first week of January 2017), the Company reported that it had completed the first shipment of 2016 contracted lithium concentrate product.

- **Esperance Port Approval**

During the year, Galaxy was also successful in receiving key approvals from the Department of Environmental Regulations ("DER") and the Southern Ports Authority ("SPA") to export spodumene, produced at its Mt Cattlin Project, from the SPA Port of Esperance, Western Australia.

A condition of the approvals for export out of Esperance included the reduction of mica content in the lithium concentrate to be shipped. Galaxy successfully achieved a product specification of well below 5% mica, which was a significant reduction from the prior product specification and an important milestone for Mt Cattlin in 2016.

The company also awarded Qube Holdings Ltd (ASX: QUB) the haulage and port services contract for its Mt Cattlin lithium and tantalum project. Qube is a leading logistics company employing approximately five thousand people nationwide, with operations covering a broad range of logistics, ports and bulk activities.

Following the restart of production, the lithium concentrate produced at Mt Cattlin has been trucked to the Esperance port and stored on-site prior to ship loading. Loading has been facilitated by Qube's Rotabox container rotating frame system. Esperance is 187km from Mt Cattlin and is now the preferred location for shipping Mt Cattlin product, whereas previously final product was shipped from the SPA port of Bunbury in Western Australia incurring much higher transport costs.

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DIRECTORS' REPORT

EVENTS SUBSEQUENT TO REPORTING DATE

On 3 January 2017 Mr Peter Bacchus and Mr John Turner were appointed to the Board as independent non-executive directors

Following the successful recommissioning of the Mt Cattlin project, the Company announced the first shipment of lithium concentrate on 2 January 2017, and the second shipment on 1 March 2017.

On 19 January 2017 the Company announced that it had entered into a US\$40 million secured debt facility with BNP Paribas which was subsequently reduced to US\$25 million. At the date of this report US\$10 million has been drawn under the facility.

On 5 February 2017 the Company issued 113,000,000 shares as a private placement at an issue price of \$0.54 to raise approximately \$61 million.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company and Group intend to continue to seek ways of unlocking and realising value from the existing assets of Sal de Vida and James Bay and to seek new investment opportunities in the lithium sector. For further information, refer to the Operational Review within the Annual Report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity holds various environmental licences and authorities, issued under Australian law, to regulate its mining, exploration and chemicals activities in Australia. These licences include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities and the storage of hazardous substances.

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

INFORMATION ON DIRECTORS

MARTIN ROWLEY

Chairman, Independent Non-Executive Director

Mr Rowley was a co-founder of TSX listed First Quantum Minerals Ltd and is currently that company's Executive Director, Business Development. First Quantum is one of the world's largest copper production companies and the owner of the Ravensthorpe nickel project in Western Australia with a market capitalisation over A\$10 billion. He was previously non-executive Chairman and director of Lithium One Inc., which was acquired by Galaxy by way of a Plan of Arrangement in July 2012. He is also non-executive Chairman and a director of Forsys Metals Corp, a TSX-listed company in the uranium sector. Appointed as Chairman and Director on 28 November 2013.

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

Directors Interests: 20,498,170 fully paid ordinary shares, 2,000,000 share appreciation rights and nil options.

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

Past Directorships (last 3 years): Nil

DIRECTORS' REPORT

ANTHONY TSE

Managing Director

Mr Tse has been an Executive Director since 13 October 2010 and was appointed Managing Director on 11 June 2013. Mr Tse has over 20 years of corporate experience in numerous high-growth industries such as technology, media and in resource 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 News Corporation's STAR TV, the Deputy General Manager of TOM Online, Director of Corporate Development at Hutchison Whampoa's TOM Group, President of China Entertainment Television (a joint venture between TOM and Time Warner), and CEO of CSN Corp. He is also a Fellow of the Hong Kong Institute of Directors (HKIoD) and a member of the Hong Kong Mining Investment Professionals Association (HKMIPA).

Special Responsibilities: Nil.

Directors Interests: 23,518,644 fully paid ordinary shares, 10,000,000 share appreciation rights and 1,000,000 options.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

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.

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

Directors Interests: 1,941,411 fully paid ordinary shares, 250,000 share appreciation rights and Nil options.

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. Mr Bacchus is also a non-executive director of UK-listed mining group NordGold, and South African and US listed Gold Fields, and is Chairman of Space for Giants, an African-focused conservation charity.

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.

Special Responsibilities: Chairman of the Audit and Risk Committee and member of the Remuneration and Nomination Committee

Directors Interests: Nil.

Current Directorships: Gold Fields Limited, NordGold plc

Past Directorships (last 3 years): Paramount Mining

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DIRECTORS' REPORT

JOHN TURNER

Independent Non-Executive Director

Mr Turner is the leader of Fasken Martineau's Global Mining Group. Fasken Martineau is a leading international business law and litigation firm with eight offices with more than 700 lawyers across Canada and in the UK and South Africa. Fasken Martineau's Global Mining Group has been ranked number one globally eight times since 2005, including for 2016.

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.

Special Responsibilities: Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk committee.

Directors Interests: Nil.

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

CHARLES WHITFIELD

Executive Director

Mr Whitfield was an Executive Director from 13 October 2010 until 30 April 2013, and from 28 November 2013 to 19 August 2016.

MICHAEL FOTIOS

Executive Director

Mr Fotios was an Non-Executive Director from 8 August 2016 to 23 December 2016.

Meetings of Directors

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

Name	Board Meetings		Audit and Risk Management Committee Meetings	
	Held	Attended	Held	Attended
Martin Rowley	7	7	2	2
Anthony Tse	7	7	2	2
Charles Whitfield	1	1	1	1
Jian-Nan Zhang	7	7	2	2
Michael Fotios	4	1	-	-

There were no formal meetings of the Remuneration and Nomination Committee held during the year with the full board carrying out the responsibilities of this committee as set out in its charter.

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

DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED

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

- A Principles of compensation
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional disclosures relating to key management personnel

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

A. Principles of compensation

Remuneration is referred to as compensation throughout this report.

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

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

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

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segments' performance;
- the Group's performance including the achievement of various corporate goals.

Compensation packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives that are assessed on a periodic basis.

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

Fixed compensation

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

Performance linked compensation

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

Consequences of performance on shareholder wealth

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

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DIRECTORS' REPORT

Non-executive directors

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

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

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

B. Details of remuneration

	2016 \$	2015 \$
Total remuneration received, or due and receivable, by key management personnel of the Group	1,407,147	2,863,157

The details of remuneration of the key management personnel and specified executives of the Group are set out in the following tables. The key management personnel of Galaxy during the year ended 31 December 2016 are the following:

- Martin Rowley (Non-Executive Chairman)
- Anthony Tse (Managing Director)
- Jian-Nan Zhang (Non-Executive Director)
- Charles Whitfield (Executive Director) – Resigned 19 August 2016
- Rowen Colman (Chief Financial Officer) – Resigned 18 November 2016
- Michael Fotios (Non-Executive Director) - Appointed 8 August 2016, Resigned 23 December 2016
- Nicholas Rowley (Director Corporate Development) Appointed 1 April 2016

Remuneration for the Year Ended 31 December 2016

Name	Short-term benefits		Post-employment benefits	Share-based payments		Total Remuneration \$
	Cash salary & fees \$	Other \$	Superannuation \$	Shares \$	SARS \$	
Executives						
Anthony Tse	401,959	-	-	-	-	401,959
Charles Whitfield ⁽ⁱ⁾	198,123	335,827 ⁽ⁱⁱⁱ⁾	-	-	-	533,950
Rowen Colman ⁽ⁱⁱ⁾	97,542	-	-	-	-	97,542
Nicholas Rowley ^(v)	112,500	15,000 ^(vi)	12,113	-	-	139,613
Non – Executive Directors						
Martin Rowley	161,150	-	-	-	-	161,150
Jian-Nan Zhang	45,662	-	4,338	-	-	50,000
Michael Fotios ^(iv)	-	-	-	22,933	-	22,933
Total	1,016,936	350,827	16,451	22,933	-	1,407,147

(i) Charles Whitfield resigned on 19 August 2016

(ii) Rowen Colman resigned on 18 November 2016

DIRECTORS' REPORT

- (iii) Termination payment
- (iv) Michael Fotios (Non-Executive Director) (appointed 8 August 2016, resigned 23 December 2016)
- (v) Nicholas Rowley specified as Key Management Personnel on 1 April 2016
- (vi) Bonus

Remuneration for the Year Ended 31 December 2015

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

C. Service Agreements

ANTHONY TSE (MANAGING DIRECTOR)

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

Agreement

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

Termination

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

D. Share-based compensation

i. Shares issued

No shares were issued to key management personnel during the financial year ended 31 December 2016 (2015: 27,700,000).

ii. Options issued

24,750,000 replacement shares were issued to Michael Fotios under the terms of the Bidders Statement lodged with the ASX on 22 June 2016. The replacement options form part of the GMM Acquisition consideration and as such are not expensed to the consolidated statement of profit or loss and other comprehensive income (2015: Nil). Details as follows:

Options	Date options granted	Number of options issued	Issue price \$	Value of options issued \$
Directors				
Michael Fotios	8 Aug 16	12,375,000	0.048	5,247,000
Michael Fotios	8 Aug 16	12,375,000	0.073	5,011,875

DIRECTORS' REPORT

iii. Share appreciation rights issued

No share appreciation rights were issued to key management personnel during the financial year ended 31 December 2016 (2015: 26,800,000).

E. Additional disclosures relating to key management personnel

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

Shares	Balance at 1 January 2016	Exercise of options/ SARS	Shares on Acquisition of GMM	Net change other ⁽ⁱ⁾	Acquisitions/ Disposals	Balance at 31 December 2016
Directors						
Martin Rowley	14,913,423	5,584,747	-	-	-	20,498,170
Anthony Tse	23,518,644	-	-	-	-	23,518,644
Charles Whitfield	22,658,644	-	-	(22,658,644)	-	-
Michael Fotios	-	-	54,295,281	(20,000,000)	(34,295,281)	-
Jian-Nan Zhang	1,559,322	235,089	-	-	-	1,794,411
Other Key Management Personnel						
Rowen Colman	200,000	-	-	(200,000)	-	-
Nicholas Rowley	-	2,792,373	-	4,000,000	(4,792,373)	2,000,000
Total shares	62,850,033	8,612,209	54,295,281	(38,858,644)	(39,087,654)	47,811,225

- (i) Mr Charles Whitfield resigned on 19 August 2016, Mr Rowen Colman on 18 November 2016 and Mr Michael Fotios 23 December 2016. Mr Nicholas Rowley specified as Key Management Personnel on 1 April 2016.

Unlisted options	Balance at 1 January 2016	Granted as remuneration	Options issued/ expired	Net change other ⁽ⁱ⁾	Balance as 31 December 2016	Vested and exercisable at 31 December 2016
Directors						
Anthony Tse	1,000,000	-	-	-	1,000,000	-
Charles Whitfield	1,000,000	-	(1,000,000)	-	-	-
Michael Fotios	-	-	24,750,000	(24,750,000)	-	-
Total options	2,000,000	-	23,750,000	(24,750,000)	1,000,000	-

- (i) Mr Fotios resigned as non-executive director on 23 December 2016.

DIRECTORS' REPORT

Share appreciation rights	Balance at 1 January 2016	Granted as remuneration	SARS expired	Net change(i) other	Balance as 31 December 2016	Vested and exercisable at 31 December 2016
Directors						
Martin Rowley	8,000,000	-	(6,000,000)	-	2,000,000	-
Anthony Tse	10,000,000	-	-	-	10,000,000	7,500,000
Charles Whitfield	8,000,000	-	-	(8,000,000)	-	-
Jian-Nan Zhang	500,000	-	(250,000)	-	250,000	-
Other Key Management Personnel						
Rowen Colman	300,000	-	-	(300,000)	-	-
Nicholas Rowley	-	-	-	1,000,000	1,000,000	-
Total SARS	26,800,000	-	(6,250,000)	(7,300,000)	13,250,000	7,500,000

- (i) Mr Charles Whitfield resigned on 19 August 2016 and Mr Rowen Colman on 18 November 2016. Mr Nicholas Rowley was specified as Key Management personnel on 1 April 2016.

INSURANCE OF OFFICERS

During the year, Galaxy Resources Limited incurred premiums of \$102,848 (2015: \$45,390) to insure the directors, secretary and/or officers of the Company.

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

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

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

DIRECTORS' REPORT

PROCEEDINGS ON BEHALF OF THE COMPANY

There are no proceedings on behalf of the Company under section 237 of the *Corporations Act 2001* in the year ended 31 December 2016 or at the date of this report.

NON-AUDIT SERVICES

During the year PricewaterhouseCoopers ("PwC"), the Group's auditor, has performed certain other services in addition to their statutory duties.

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

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

Details of amounts paid or payable to PwC can be found at note 28.

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.

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 21 and forms part of the directors' report for the year ended 31 December 2016.

Signed in accordance with a resolution of the Directors

Dated at Perth this 31st day of March 2017.

On behalf of the Directors



A P Tse
Managing Director

For personal use only



Auditor's Independence Declaration

As lead auditor for the audit of Galaxy Resources Limited for the year ended 31 December 2016, 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
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 \$'000	2015 \$'000
Revenue			
Finance income	5	29	4,277
Other income		13	50
Expenses			
Operating costs		(278)	(110)
Other expenses from ordinary activities			
Administration costs		(5,056)	(4,487)
Employment costs	7	(2,529)	(4,317)
Depreciation		(88)	(123)
Finance costs	7	(9,065)	(9,611)
Foreign exchange losses		(367)	(940)
Impairment reversal on property, plant and equipment	15	75,691	-
Impairment of exploration and evaluation	16	(38)	(319)
Realised gain on available-for-sale financial assets	6	4,455	-
Acquisition transaction costs	6	(4,747)	-
Profit/(Loss) before taxation		58,020	(15,580)
Income tax benefit	8	64,686	-
Profit/(Loss) from continuing operations		122,706	(15,580)
Profit from discontinued operation	11	-	70,443
Profit for the period		122,706	54,863
Profit attributable to:			
Owners of Galaxy Resources Limited		122,788	55,230
Non-controlling interests		(62)	(367)
		122,706	54,863
Other comprehensive income/(loss) for the period			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences – foreign operations		(3,974)	(5,437)
Reclassification of cumulative foreign currency gain on disposal of subsidiary		-	(8,320)
Revaluation of available-for-sale financial assets	23	(1,898)	1,898
Income tax relating to revaluation of available-for-sale financial assets	23	438	(438)
Other comprehensive loss for the period		(5,434)	(12,298)
Total comprehensive income for the period		117,272	42,565
Total comprehensive income/(loss) for the period attributable to:			
Owners of Galaxy Resources Limited		117,494	43,275
Non-controlling interests		(222)	(710)
		117,272	42,565
Total comprehensive profit/(loss) for the period attributable to owners of Galaxy Resources Limited arises from:			
Continuing operations		117,494	(24,487)
Discontinued operations		-	67,762
		117,494	43,275
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the company			
Basic profit per share (cents per share)	9	8.3	(1.4)
Diluted profit per share (cents per share)	9	8.1	(1.4)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company			
Basic profit per share (cents per share)	9	8.3	5.0
Diluted profit per share (cents per share)	9	8.1	4.9

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 \$'000	2015 \$'000
CURRENT ASSETS			
Cash and cash equivalents	12	9,327	4,761
Other receivables and prepayments	13	2,163	6,618
Inventories	14	11,457	1,065
TOTAL CURRENT ASSETS		22,947	12,444
NON-CURRENT ASSETS			
Property, plant and equipment	15	343,468	1,685
Exploration and evaluation assets	16	123,183	124,005
Available-for-sale financial assets	17	-	1,549
Deferred tax asset	8	64,686	-
TOTAL NON-CURRENT ASSETS		531,337	127,239
TOTAL ASSETS		554,284	139,683
CURRENT LIABILITIES			
Trade and other payables	18	14,082	1,361
Deferred income	19	18,374	-
Provisions	20	177	53
Interest bearing liabilities	21	40,242	-
TOTAL CURRENT LIABILITIES		72,875	1,414
NON-CURRENT LIABILITIES			
Provisions	20	8,423	7,174
Interest bearing liabilities	21	-	28,293
TOTAL NON-CURRENT LIABILITIES		8,423	35,467
TOTAL LIABILITIES		81,298	36,881
NET ASSETS		472,986	102,802
EQUITY			
Contributed equity	23	694,332	459,218
Reserves	23	4,169	(6,633)
Accumulated losses		(225,515)	(353,964)
Capital and reserves attributable to owners of Galaxy Resources Limited		472,986	98,621
Non-controlling interests		-	4,180
TOTAL EQUITY		472,986	102,801

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 2016

Note	Contributed Equity \$'000 23(a)	Reserves \$'000 23(b)	Accumulated losses \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 January 2015	450,693	11,986	(417,504)	45,174	4,890	50,065
Profit (loss) for the year	-	-	55,230	55,229	(367)	54,862
Other comprehensive loss for the year	-	(11,955)	-	(11,955)	(342)	(12,297)
Total comprehensive income (loss)	-	(11,955)	55,230	43,274	(710)	42,564
Transaction costs arising on share issue	(23)	-	-	(23)	-	(23)
Transfer of reserve upon forfeit of options	-	(8,311)	8,311	-	-	-
Share-based payment transactions	8,548	1,647	-	10,195	-	10,195
Balance at 31 December 2015	459,217	(6,631)	(353,963)	98,621	4,180	102,801
Profit (loss) for the year	-	-	122,788	122,788	(82)	122,706
Other comprehensive loss for the year	-	(5,294)	-	(5,294)	(140)	(5,434)
Total comprehensive income (loss)	-	(5,294)	122,788	117,494	(222)	117,272
Transaction costs arising on share issue	(19)	-	-	(19)	-	(19)
GMM Acquisition	230,903	11,312	-	242,214	-	242,214
Transfer of reserve upon forfeit of options	-	(5,660)	5,660	-	-	-
Transfer of reserve upon exercise of option	932	(932)	-	-	-	-
Exercise of share options	1,710	-	-	1,710	-	1,710
Share-based payment transactions	1,589	7,417	-	9,006	-	9,006
Acquisition of non- controlling interest	-	3,958	-	3,959	(3,959)	-
Balance at 31 December 2016	694,332	4,169	(225,515)	472,986	-	472,986

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 2016

	Note	2016 \$'000	2015 \$'000
Operating activities			
Receipts from customers		9,159	2,170
Receipts from Australian Taxation Office		-	185
Payments to suppliers, contractors and employees		(6,538)	(9,550)
Net cash inflow/(outflow) operating activities	33	2,621	(7,194)
Investing activities			
Interest received		28	77
Acquisition of property, plant and equipment		(21,435)	(19)
Payment for shares in listed company		-	(50)
Proceeds from sale of assets		1,500	46,981
Cash acquired through acquisition		6,534	-
Proceeds from available-for-sale assets		27	-
Payments for exploration and evaluation assets		(1,717)	(1,845)
Net cash (outflow)/inflow from investing activities		(15,063)	45,144
Financing activities			
Proceeds from issue of shares, net of transaction costs		1,710	(23)
Bank charges, withholding tax and interest paid		(4,529)	(13,029)
Proceeds from borrowings		22,200	33,228
Repayments of borrowings		(2,302)	(12,942)
Repayments of convertible bonds		-	(57,000)
Net cash inflow/(outflow) from financing activities		17,079	(49,766)
Net increase/(decrease) in cash and cash equivalents		4,637	(11,817)
Cash and cash equivalents at the beginning of the year		4,761	13,581
Effect of foreign exchange rate changes		(71)	2,997
Cash and cash equivalents at the end of the year		9,327	4,761
Non-cash financing and investing activities	34		

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. REPORTING ENTITY

Galaxy Resources Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is Suite 8, 18 Kearns Crescent, Ardross, Western Australia. The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The Group is a for-profit entity and is primarily involved in mineral exploration and processing.

2. BASIS OF PREPARATION

a) Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 31st March 2017.

b) Basis of measurement

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

- Derivative financial instruments are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Convertible bonds issued are designated at fair value through profit or loss.

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in Note 31.

e) Rounding of amounts

The Company is of a kind referred to in Rounding Instruments 2016/191, issued by the Australia Securities and Investment Commission, relating to the “rounding off” of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Rounding Instrument to the nearest thousand dollars, or in certain cases the nearest dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. BASIS OF PREPARATION (CONTINUED)

f) Working capital deficiency

As at 31 December 2016 the Group had a working capital deficiency of \$49,927,380 (31 December 2015 – working capital surplus of \$11,029,916).

This working capital deficiency has arisen due to the Group's interest bearing debt due to OL Master (Singapore) Pte being due for repayment by 31 March 2017.

Subsequent to year end the Group has:

- Raised \$61,020,000 by the placement of 113,000,000 shares to professional and sophisticated investors;
- Entered into an agreement with BNP Paribas for the provision of an interest bearing debt facility of up to USD 25,000,000 (\$34,722,222) of which USD 10,000,000 (\$13,888,888) will be amortised over 12 months from first draw down. This facility is drawn to US\$10,000,000; and
- All amounts due to OL Master (Singapore) Pte Ltd were repaid from proceeds from the placement.

Subsequent to year end the Company's working capital deficiency at 31 December 2016 has been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Principles of consolidation

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

Subsidiaries are consolidated where the Company has control of a subsidiary. Control is obtained where the Company possesses power over the subsidiary, has exposure of rights to variable returns from its involvement with the subsidiary and has the ability to use its power over the subsidiary to affect its returns. For non-wholly owned subsidiaries, the net assets attributable to outside equity shareholders are presented as "non-controlling interest" in the equity section of the consolidated statement of financial position. Profit for the year that is attributable to non-controlling interests is calculated based on the ownership of the minority shareholders in the subsidiary. Entities are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases. A list of controlled entities is detailed in note 4 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments

(i) Non-derivative financial assets

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

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

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

The Group has the following non-derivative financial assets: cash and cash equivalents, available-for-sale financial assets and loans and receivables.

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

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

Available-for-sale financial assets

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

(ii) Non-derivative financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial Instruments (continued)

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

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

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

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

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

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

c) Exploration and evaluation assets

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

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

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

- a) The rights to tenure of the area of interest are current; and
- b) At least one of the following conditions is also met:
 - i) The expenditure is expected to be recouped through successful development and commercial exploitation of an area of interest, or alternatively by its sale; or
 - ii) Exploration and evaluation activities in the area of interest have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of 'economically recoverable reserves' and active and significant operations in, or in relation to, the area of interest are continuing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Exploration and evaluation assets (continued)

Economically recoverable reserves are the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable conditions.

Intangible exploration and evaluation assets include:

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

Tangible exploration and evaluation assets include:

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

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

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

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

Impairment testing of exploration and evaluation assets

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

- The term of exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Exploration and evaluation assets (continued)

- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each cash generating unit ("CGU") which is no larger than the area of interest.

d) Property, plant and equipment

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

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

Subsequent costs

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

Assets under construction

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

Development expenditure

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

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

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

Development expenditure includes the following:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment (continued)

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

Depreciation

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

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

De-recognition

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

e) Impairment of assets

Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Impairment of assets (continued)

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

Available-for-sale financial assets

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

Non-financial assets

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

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

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

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

Reversal of impairment for property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Inventories

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

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

g) Revenue recognition

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

h) Convertible bonds

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

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

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

i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Provisions (continued)

Provision for rehabilitation

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

j) Leased assets

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

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

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

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

k) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings, bank charges and other related financing costs.

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

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

l) Foreign currency

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Foreign currency (continued)

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date.

Foreign currency transactions

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

Foreign operations

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

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

m) Employee benefits

Defined contribution retirement plans

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

Short term benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Employee benefits (continued)

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees (including directors) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of employee share options is measured using a Black Scholes option valuation model ("Black Scholes") or Monte-Carlo valuation model ("Monte-Carlo").

Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

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

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

n) Taxes

Income tax

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Taxes (continued)

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

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

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

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

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant taxation authorities. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST or VAT included. The net amount of the GST or VAT recoverable from or payable to the relevant taxation authorities is included as a current asset or liability in the statement of financial position.

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

Tax consolidation

The Company and the Australian subsidiary, Galaxy Lithium Australia Limited, formed a tax consolidated group on 1 July 2008 under Australian taxation laws, whereby all entities within the tax consolidated group are taxed as a single entity. On 29 December 2016, General Mining Corporation Limited entered the tax consolidated group. The head entity of the tax consolidated group is Galaxy Resources Limited.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Operating segments

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

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

p) Contributed equity

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

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

q) Earnings per share

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

r) Related parties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) New and amended standards adopted by the group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2016:

1. AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisition of Interests in Joint Operations*
2. AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*
3. AASB 2015-1 *Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012-2014 cycle*; and
4. AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure initiative Amendments to AASB 101*.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

A number of new standards, interpretations and amendments to existing standards are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these financial statements. This listing of standards, interpretations and amendments issued includes those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied in the future. The Group intends to adopt these standards when they become effective.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Accounting standards and interpretations issued but not yet adopted

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

u) Discontinued operations

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

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

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

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

v) Determining the parent entity financial information

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

Investments in subsidiaries, associates and joint venture entities

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

w) Joint operations

The Company recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held assets or incurred liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any assets or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred. The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity.

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

y) Deferred income

Deferred income represents payments collected but not earned at the end of the reporting period. These payments are recognised as revenue when the goods are delivered or services are provided.

Sale of products

Revenue from the sale of products is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, indicating that there has been a transfer of risks and rewards of ownership to the customer, no further work or processing is required by the Group, the quantity of the products have been determined with reasonable accuracy, the price can be reasonably estimated and collectability is reasonably assured.

For spodumene concentrate sales, the above conditions are generally satisfied when title passes to the customer, typically on the bill of lading date when ore is delivered to the vessel. Accordingly, revenue from sales of spodumene concentrate is recognised on the bill of lading date at an invoiced amount.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. INTERESTS IN OTHER ENTITIES

Investments in subsidiaries

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

Name of company	Place of incorporation/ establishment and operation	Type of legal entity	Interest as at 31 December		Principal activity
			2016	2015	
Galaxy Lithium Australia Limited	Australia	Limited company	100%	100%	Mining of Mt Cattlin spodumene
Galaxy Lithium Proprietary Limited	Australia	Limited company	100%	100%	Dormant
General Mining Corporation Limited	Australia	Limited company	100%	6 million shares	Mining of Mt Cattlin spodumene
Golden Cross Company Limited Liability Company	Mongolia	Limited company	100%	Indirect holding via shareholding in parent "General Mining Corporation Limited"	Dormant
Galaxy Resources International Limited	Hong Kong	Limited company	100%	100%	Investment holding company
Galaxy Resources Share Plan Proprietary Limited	Australia	Limited company	100%	N/A	Dormant
Galaxy Lithium (Canada) Inc.	Canada (Quebec)	Limited company	100%	100%	Exploration of James Bay spodumene deposits
Galaxy Lithium Holdings BV	The Netherlands	Limited company	100%	100%	Investment holding company
Galaxy Lithium (US) Inc.	United States (Delaware)	Limited company	100%	100%	Investment holding company
Galaxy Lithium One (Quebec) Inc.	Canada (Quebec)	Limited company	100%	100%	Investment holding company
Galaxy Lithium One Inc.	Canada (Quebec)	Limited company	100%	100%	Investment holding company
Galaxy Lithium (Ontario) Inc.	Canada (Ontario)	Limited company	100%	100%	Exploration of James Bay spodumene deposits
Galaxy Lithium (BC) Limited	Canada (British Columbia)	Limited company	100%	100%	Investment holding company
Galaxy Lithium Holdings Limited Liability Company	United States (Delaware)	Limited company	100%	100%	Dormant
Galaxy Lithium (Colorado) Inc.	United States (Colorado)	Limited company	100%	100%	Investment holding company
Galaxy Lithium (Sal de Vida) S.A.	Argentina (Salta)	Stock Company	100%	96%	Exploration and Development of Sal de Vida Project

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5. REVENUE

The Group derives the following types of revenue:

	2016 \$'000	2015 \$'000
<i>Finance income</i>		
Gain on extinguishment of convertible bonds (note 21)	-	4,200
Interest income on cash assets	29	77
Total revenue from continuing operations	29	4,277

6. BUSINESS COMBINATION

On 30 May 2016 Galaxy announced an on-market takeover bid of General Mining Corporation Limited ("GMM") which resulted in Galaxy obtaining control of GMM on 28 July 2016. GMM shareholders received 1.65 new Galaxy shares for every 1 GMM share held, totaling \$231.7 million consideration. In addition, Galaxy was obliged to replace GMM options, which were valued at \$10.2m in value using a Black/Scholes valuation.

The takeover creates a leading diversified global lithium company with large wholly owned portfolio of hard rock and brine based lithium assets located in multiple jurisdictions. The merged entity will have a strong financial position with growing cash flow generation to support continued project expansion and development, and further industry opportunities. The GMM acquisition results in the only ASX listed lithium producer/developer that has a diversified project portfolio. A diversified project portfolio offers significant upside in the current pricing environment, and valuable protection in a softer price environment.

At 31 December 2016, the acquisition accounting balances recognised are provisional due to ongoing work finalising valuations and tax related matters which may impact acquisition accounting entries.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. BUSINESS COMBINATION (CONTINUED)

The provisional fair value of the identifiable assets acquired and liabilities recognised at the date of acquisition are:

	2016 \$'000
Assets	
Cash and cash equivalents	6,534
Receivables	507
Inventories	11,157
Exploration and evaluation	2,477
Property, plant and equipment	35,564
Mine development	222,523
Total assets	278,762
Liabilities	
Payables	7,760
Provisions	8,044
Total liabilities	15,804
Net assets acquired	262,958
Consideration paid	
421,470,738 Galaxy shares at 45 cents	189,662
24,750,000 Galaxy unlisted options	10,259
Fair value of initial shareholding in GMM	4,455
Pre-existing receivable from GMM	16,500
Purchase consideration prior to non-controlling interest	220,876
Non-controlling interests at proportionate share arising on acquisition	42,082
Total consideration paid	262,958
Inflow of cash to acquire subsidiary	
Cash acquired	6,534
Net cash acquired on acquisition	6,534

Acquisition-related costs of \$4.7 million have been recognised in expenses in the consolidated statement of profit or loss for the year ended 31 December 2016.

The fair value of the consideration paid through this step acquisition has been calculated on the following basis:

- GMM had 318,197,526 shares on issue as the acquisition date;
- Galaxy owned 6,000,000 of the issued GMM shares as at the acquisition date;
- GMM shareholders (excluding Galaxy) were issued 1.65 Galaxy shares for every GMM share held; and
- A cost of \$10,258,875 was incurred in issuing 24,750,000 unlisted Galaxy options ("replacement options") to replace 15,000,000 unlisted options in GMM. The replacement options were independently valued using the Black/Scholes valuation methodology; and
- Galaxy's share price was 45 cents per share as at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. BUSINESS COMBINATION (CONTINUED)

At the acquisition date, Galaxy recognised a non-controlling interest on a proportionate share basis of \$42.1 million representing the 17.9% of GMM shares which were acquired from 28 July 2016 through to 29 September 2016. The acquisition of the non-controlling interest resulted in a gain of \$1.0 million recognised directly in other comprehensive income. Refer to Note 23(b).

The acquired business contributed a net loss before tax of \$369,535 for the period 28 July to 31 December 2016. Had GMM been acquired on 1 January 2016, Galaxy would have recognised an additional loss before tax of \$2,520,085

There were no acquisitions in the year ended 31 December 2015.

7. EXPENSES

	2016 \$'000	2015 \$'000
(a) Finance costs		
Interest expense on financial liabilities	3,311	7,307
Bank charges	23	22
Convertible bonds transaction costs	-	1
Withholding tax on overseas interest payments	-	1,050
Share based payments	-	527
Amortisation of capitalized financing costs	5,731	703
Finance costs attributable to continued operations	9,065	9,611
Net finance costs attributable to discontinued operations	-	2,231
(b) Employment costs		
Contributions to defined contribution retirement plans	90	82
Share-based payments	234	2,446
Salaries, wages and other benefits	2,903	1,790
Capitalised salaries	(698)	-
Employment costs attributable to continued operations	2,529	4,317
(c) Other items		
Operating lease charges for property rental	199	219

8. INCOME TAX

A reconciliation of income tax benefit applicable to accounting profit/(loss) before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2016 and 31 December 2015 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8. INCOME TAX (CONTINUED)	2016 \$'000	2015 \$'000
Accounting profit/(loss) before tax from continuing operations	58,020	(15,581)
Profit before tax from discontinued operations	-	70,443
Accounting profit before income tax	58,020	54,862
At the statutory income tax rate of 30% (2015:30%)	<u>(17,406)</u>	<u>(16,459)</u>
Deductible balancing adjustment/(non-deductible expenses)	3,222	(5,593)
Tax effect on temporary differences brought to account	18,382	6,754
Tax losses not brought to account as a deferred tax asset	-	(7,535)
Tax losses brought to account as a deferred tax asset	63,081	-
Non-assessable income	-	22,832
Under provision in prior year	<u>(2,593)</u>	<u>-</u>
Income tax benefit	<u>64,686</u>	<u>-</u>

- (i) The statutory tax rate applicable to the Company and the Australian subsidiary was 30% during 2015 and 2016. No provision for Australian taxation was made during the Relevant Period as the Company and the Australian subsidiary sustained losses for taxation purposes.
- (ii) Hong Kong's statutory tax rate was 16.5%. No provision for Hong Kong Profits Tax was made for the Hong Kong subsidiary incorporated in July 2009 as it did not have assessable profits subject to Hong Kong Profits Tax for 2016 and 2015.

Tax Consolidation

The Company and its 100% owned controlled Australian entities have formed a tax consolidated group. Members of the tax consolidated group have entered into a tax sharing arrangement in order to allocate income tax expense to the Australian wholly owned controlled entities on a pro-rate basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Galaxy Resources Ltd (Group).

Tax Effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Galaxy Resources Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8. INCOME TAX (CONTINUED)

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
<i>CONSOLIDATED</i>						
Tax losses	(72,436)	-	-	-	(72,436)	-
Inventories	(961)	(328)	-	-	(961)	(328)
Property, plant and equipment	-	(19,084)	8,790	-	8,790	(19,084)
Exploration, evaluation and development expenditure	-	-	1,615	1,101	1,614	1,101
Provisions	(1,133)	(919)	-	-	(1,132)	(919)
Other	(713)	(558)	-	-	(713)	(558)
Borrowing costs	(66)	(70)	-	-	(66)	(70)
Unrealised foreign exchange losses (gains)	-	-	218	1,476	218	1,476
DTA not taken to account	-	18,382	-	-	-	18,382
<i>Tax (assets)/liabilities</i>	(75,309)	(2,577)	10,622	2,577	(64,686)	-
Set off of tax	-	2,577	-	(2,577)	-	-
<i>Net tax (assets)/liabilities</i>	(75,309)	-	10,622	-	(64,686)	-

Deferred tax assets of \$64.7 million (2015: Nil) have been recognised in relation to unused tax losses, due to taxable income being forecast in the future from the Mt Cattlin operations.

(b) Unrecognised deferred tax assets

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

	2016 \$'000	2015 \$'000
Other deductible temporary differences	-	18,382
Unused tax losses	-	214,606
	-	232,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

9. EARNINGS PER SHARE

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

	2016	2015
Basic profit (loss) per share (cents)	8.33	5.01
Diluted profit (loss) per share (cents)	8.09	4.85
Profit (loss) attributable to the ordinary shareholders of the Company (\$'000)	122,788	55,230
Basic profit (loss) per share (cents) from continuing operations	8.33	(1.38)
Diluted profit (loss) loss per share (cents) from continuing operations	8.09	(1.38)
Profit/(Loss) attributable to the ordinary shareholders of the Company from continuing operations (\$'000)	122,788	(15,213)
Weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	1,474,390,098	1,103,201,993
Effect of share options	23,106,568	18,835,616
Effect of share appreciation rights	20,213,239	15,672,123
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,517,709,905	1,137,709,732

10. SEGMENTS INFORMATION

(a) Description of segments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. SEGMENTS INFORMATION (CONTINUED)

(b) Reportable segments

	Corporate		Australia		Argentina		Canada		Total	
	2016 \$'000	2015 \$'000								
Finance income	29	4,277	-	-	-	-	-	-	29	4,277
Other income	13	-	-	50	-	-	-	-	13	50
Operating costs and provisions for inventory and onerous contracts	-	-	(278)	(110)	-	-	-	-	(278)	(110)
Other expenses from ordinary activities	(6,762)	(8,243)	(1,542)	(1,111)	(25)	(832)	(40)	-	(8,369)	(10,186)
Finance costs	(9,057)	(7,783)	(4)	(1,820)	-	(8)	(4)	(1)	(9,065)	(9,611)
Impairment reversal of property, plant & equipment	-	-	75,691	-	-	-	-	-	75,690	-
Reportable segment profit (loss) before income tax	(15,778)	(11,749)	73,867	(2,991)	(25)	(840)	(44)	(1)	58,020	(15,581)
Reportable segment interest bearing liabilities	40,242	28,293	-	-	-	-	-	-	40,242	28,293
Other reportable liabilities	7,068	1,013	29,432	3,160	56	232	4,500	4,182	41,056	8,587
Reportable segment assets	66,541	7,974	360,437	4,850	115,893	118,642	2,087	1,906	544,958	133,373
Additions to non-current segment assets during the period	126	19	290,304	254	1,057	1,902	108	19	291,595	2,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. SEGMENTS INFORMATION (CONTINUED)

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

Inter-segment revenue for the year ended 31 December 2016 is \$Nil (2015: \$Nil). The reconciliation between reportable segment assets and the Group's consolidated total assets as at the end of the financial year is as follows:

	2016 \$'000	2015 \$'000
Assets		
Total assets for reportable segments	544,958	133,373
Unallocated:		
Cash and cash equivalents	9,327	4,761
Available-for-sale financial assets	-	1,549
Consolidated total assets	<u>554,285</u>	<u>139,682</u>
Liabilities		
Total liabilities for reportable segments	<u>81,298</u>	<u>36,881</u>
Consolidated total liabilities	<u>81,298</u>	<u>36,881</u>

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

	2016 \$'000	2015 \$'000
Profit or loss		
Loss from continuing operations	122,706	(15,581)
Profit (loss) from discontinued operations	-	70,443
Consolidated profit (loss) after tax	<u>122,706</u>	<u>54,862</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. DISCONTINUED OPERATIONS

(a) Description

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

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

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

(b) Financial performance and cash flow information

	2016 \$'000	2015 \$'000
Revenue	-	173
Expenses	-	(5,787)
Loss before income tax	-	(5,614)
Income tax expense	-	-
Loss after income tax of discontinued operation	-	(5,614)
Gain on sale of the subsidiary after income tax (see (c) below)	-	76,057
Profit from discontinued operation	-	70,443
Net cash outflow from operating activities	-	(2,373)
Net cash inflow from investing activities (i)	-	46,947
Net cash outflow from financing activities	-	(4,514)
Net increase in cash from discontinued operations	-	40,060

(i) Gross sale proceeds were offset by non-cash repayment of the sale deposit of \$16.1 million (US\$12.2 million) and the Tianqi loan of \$40.7 million (US\$30 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. DISCONTINUED OPERATIONS (CONTINUED)

(c) Details of the sale of the subsidiary

	2016 \$'000	2015 \$'000
Consideration received or receivable:		
Total disposal cash consideration	-	103,715
Carrying amount of net assets sold	-	(35,978)
Gain on sale before income tax and reclassification of foreign currency translation reserve	-	67,737
Reclassification of foreign currency translation reserve	-	8,320
Income tax expense on gain	-	-
Gain on sale after income tax	-	76,057

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

	\$'000
Cash and cash equivalents	298
Property, plant and equipment	165,389
Lease prepayments	1,977
Trade and other receivables	21,090
Inventories	11,320
Total assets	200,074
Trade creditors and accruals	36,015
Interest bearing liabilities	128,081
Total liabilities	164,097
Net Assets	35,978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12. CASH AND CASH EQUIVALENTS

	2016 \$'000	2015 \$'000
Current		
Cash at bank and on hand	<u>9,327</u>	<u>4,761</u>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 30.

13. TRADE AND OTHER RECEIVABLES

	2016 \$'000	2015 \$'000
Current		
Trade receivables	178	66
Proceeds receivable from secured debt instrument	-	6,200
Other receivables ^(a)	1,690	86
Prepayments	223	166
Security bonds	<u>72</u>	<u>99</u>
	<u>2,163</u>	<u>6,618</u>

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

14. INVENTORIES

	2016 \$'000	2015 \$'000
Current		
Consumables – at cost	1,938	2,159
Provision for obsolescence	(1,094)	(1,094)
Raw product - Spodumene ore	<u>10,613</u>	<u>-</u>
	<u>11,457</u>	<u>1,065</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Plant & Equipment	Mine Development expenditure	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2015	1,412	127,980	17,708	147,100
Additions	-	17	-	19
Disposals	-	(307)	-	(307)
Foreign exchange movement	-	(140)	-	(140)
Balance at 31 December 2015	1,412	127,552	17,708	146,671
Additions	-	28,745	-	28,745
Disposals	-	(63,364)	(8,854)	(72,218)
Foreign exchange movement	-	(66)	-	(66)
GMM Acquisition (note 6)	-	35,564	222,523	258,087
Balance at 31 December 2016	1,412	128,430	231,377	361,219
Accumulated Depreciation				
Balance at 1 January 2015	-	127,483	17,708	145,191
Depreciation	-	120	-	120
Disposals	-	(255)	-	(255)
Foreign exchange movement	-	(70)	-	(70)
Balance at 31 December 2015	-	127,279	17,708	144,986
Depreciation	-	88	-	88
Impairment reversal (a)	-	(64,070)	(11,621)	(75,691)
Disposals	-	(45,910)	(5,689)	(51,600)
Foreign exchange movement	-	(34)	-	(34)
Balance at 31 December 2016	-	17,353	398	17,751
Net book value				
At 31 December 2015	1,412	273	-	1,685
At 31 December 2016	1,412	111,077	230,979	343,468

The Mt Cattlin mine and processing plant operations, which is part of the Australian operating segment (refer to note 10), had been suspended since July 2012 and had a carrying value of \$1.4 million at 31 December 2015 representing land value.

The Company executed the Acquisition and Development Agreement ("ADA") with GMM on 4 September 2015 for GMM to acquire a 50% interest in Mt Cattlin. On 1 April 2016 GMM confirmed commencement of production at Mt Cattlin and triggered a reassessment of the recoverable amount of the property, plant & equipment by the Company as at 31 March 2016. On the basis of the cash consideration payable by GMM in the ADA, the Company reassessed the carrying value of the Mt Cattlin property, plant and equipment to be \$43 million and credited an impairment reversal of \$41,221,906 to the profit or loss for the period ended 30 June 2016. Subsequently on 1 April 2016 the Company recorded a disposal of \$20,610,953 property, plant and equipment as part of the consideration for the GMM sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

On 30 May 2016 the Company announced an offer to acquire the outstanding common shares of GMM on the basis of 1.65 Galaxy shares for every GMM share. GMM's principal asset was its interest in Mt Cattlin and the takeover offer by Galaxy valued the GMM share in Mt Cattlin project at \$217 million at the time of the offer. At 30 June 2016, on the basis of this market evidence, the Company reassessed the carrying value of its retained interest in the Mt Cattlin property, plant and equipment to be \$55 million being the estimated written down value if the property, plant and equipment had continued to be depreciated and not impaired. An additional impairment reversal of \$34,468,690 was credited to the profit or loss for the period ended 30 June 2016 bringing the total impairment reversal to \$75,690,596.

The property plant and equipment acquired as part of the GMM merger was measured initially at their fair value at the acquisition date outlined in note 6. It was then assessed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's accounting policies and other pertinent conditions as at the acquisition date to finalise the fair value. The provisional fair value allocation at 28 July 2016 supports the impairment reversal at 30 June 2016 of Galaxy's retained interest in its previously impaired assets.

16. EXPLORATION AND EVALUATION ASSETS

	Boxwood Hill	Mt Cattlin	Sal de Vida	James Bay	Total
Cost:	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2015	-	3,735	125,260	2,000	130,995
Additions	8	246	1,902	19	2,174
Impairment	(8)	(312)	-	-	(319)
Foreign exchange movement	-	-	(8,718)	(127)	(8,845)
Balance at 31 December 2015	-	3,669	118,444	1,892	124,005
Additions	38	1,713	1,050	108	2,909
Impairment	(38)	-	-	-	(38)
Foreign exchange movement	-	-	(3,782)	89	(3,693)
Balance at 31 December 2016	-	5,382	115,712	2,089	123,183

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 \$'000	2015 \$'000
Equity securities held at fair value	-	1,549

As at 31 December 2015 the Group's available-for-sale financial assets included 6 million shares in GMM which were revalued on the basis of a significant increase in their fair market value.

Subsequent to the recognition of this gain the Company acquired all the shares in GMM that it did not own. As a result, the Company's holding is now accounted for as a wholly owned subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

18. TRADE AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Trade payables	7,159	449
Transaction costs payable	4,747	-
Payroll tax and other statutory payables	145	48
Accrued interest payable	217	338
Other payables	1,814	526
	<u>14,082</u>	<u>1,361</u>

Trade and other payables mainly represent amounts owing for general expenses and accrued interest on loans. The Company also accrued for operating expenses on Mt Cattlin and transaction costs on the GMM acquisition, all of which are expected to be settled within one year.

19. DEFERRED INCOME

	2016 \$'000	2015 \$'000
Spodumene concentrate prepayments	<u>18,374</u>	-

Deferred income represents payments collected but not earned at the end of the reporting period. These payments are recognised as revenue when the goods are delivered. The balance relates to a total of USD14.5m in prepayments, a portion of which was acquired through the GMM acquisition. It is expected that the shipments relating to these prepayments will be fulfilled in 2017.

20. PROVISIONS

Movement in provisions	Rehabilitation \$'000	Onerous Contracts \$'000	Annual Leave \$'000	Total \$'000
Balance at 1 January 2015	7,455	505	146	8,107
Movement in provision	(282)	(468)	(131)	(881)
Balance at 31 December 2015	7,174	37	15	7,226
Movement in provision	1,221	(37)	191	1,375
Balance 31 December 2016	8,394	-	206	8,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

20. PROVISIONS (CONTINUED)

	2016 \$'000	2015 \$'000
Total provisions		
Current	177	53
Non-current	8,423	7,174
Total	<u>8,600</u>	<u>7,227</u>

Non-current provisions mainly relate to the Group's rehabilitation obligations in Australia and Canada.

Australia

A provision of \$4,020,301 (2015: \$2,994,861) is recognised in respect of the rehabilitation obligations for Mt Cattlin.

The Mt Cattlin plant was placed on care and maintenance in March 2013. During the financial year the Mt Cattlin plant has been recommissioned with production re-commencing. Accordingly, the rehabilitation provision has been updated to reflect the current state of the project.

Canada

A provision of \$4,374,138 (2015: \$4,178,810) is recognised in respect of the restoration of the tailings site at a former Lithium 1 mining site in Canada. The timing and amount of the rehabilitation is subject to negotiations with government authorities in Quebec.

21. INTEREST BEARING LIABILITIES

	2016 \$'000	2015 \$'000
Current		
Secured loan facility	44,698	-
Capitalised finance costs	(4,456)	-
Balance at end of the year	<u>40,242</u>	<u>-</u>
Non-current		
Secured loan facility	-	31,000
Capitalised finance costs	-	(2,707)
Balance at end of the year	<u>-</u>	<u>28,293</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21. INTEREST BEARING LIABILITIES (CONTINUED)

Summary of movements in interest bearing liabilities

	Convertible bonds	Secured loan	Tianqi loan	Secured loan facility	Capitalised finance costs	Total
	‘\$000	‘\$000	‘\$000	‘\$000	‘\$000	‘\$000
Balance 1 January 2015	60,000	4,450	36,783	-	-	101,233
Initial recognition	-	-	838	31,000	(2,804)	29,034
Interest and financing expense	5,467	403	959	323	97	7,249
Interest repayments	(7,430)	(407)	(1,445)	-	-	(9,282)
Accrued interest	3,163	69	460	(323)	-	3,369
Foreign exchange	-	-	2,598	-	-	2,598
Discount on bonds	(4,200)	-	-	-	-	(4,200)
Conversion to shares	-	(4,516)	-	-	-	(4,516)
Repayment	(57,000)	-	(40,191)	-	-	(97,191)
Balance 31 December 2015	-	-	-	31,000	(2,707)	28,293
Initial recognition	-	-	-	16,000	(7,480)	8,520
Interest and financing expense	-	-	-	3,264	5,731	8,995
Interest repayments	-	-	-	(3,369)	-	(3,369)
Accrued interest	-	-	-	105	-	105
Repayment	-	-	-	(2,302)	-	(2,302)
Balance 31 December 2016	-	-	-	44,697	(4,456)	40,242

Secured loan facility

On 24 November 2015 the Company executed a Facility Agreement with OL Master (Singapore) Pte. Limited for a secured loan of \$31 million for a term of 3 years at an annual interest rate of 10%. The facility increased by \$16 million on 31 October 2016 and fully drawn. The lender was granted 50 million unlisted warrants as part of the Facility Agreement (40 million exercisable at \$0.3436 expiring 31 October 2019 and 10 million exercisable \$0.415 expiring 6 October 2018) Refer to note 23 for further details.

The warrants to be granted to the lender have been valued at \$7,160,000 and capitalised against the secured loan facility, on the statement of financial position, to be expensed over the period of the loan. During the year ended 31 December 2016 \$5,731,010 (2015: \$11,242) was expensed to the profit or loss.

The repayment dates for the \$31 million is 24 February 2017, while the \$16 million is repayable on 31 March 2017. Subsequent to year end, the facility has been repaid in full. The secured loan facility is recognized and measured at amortised cost.

22. CONTINGENT ASSETS AND LIABILITIES

Except for the disputed items with Tianqi detailed in note 11(a) there are no other material contingent assets or liabilities as at 31 December 2016 (2015: As per 2016)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. EQUITY

(a) Contributed equity

(i) Share capital

	2016 Number	2015 Number	2016 \$'000	2015 \$'000
Fully paid ordinary shares	1,832,545,826	1,264,433,185	694,332	459,218

(ii) Movement in ordinary share capital

	Number	\$'000
Balance 1 January 2015	1,064,783,990	450,693
Employee share issue	38,400,000	1,553
Loan conversion	129,016,286	4,516
Facility fee	32,232,909	2,480
	1,264,433,185	459,241
Transaction costs	-	(23)
Balance 31 December 2015	1,264,433,185	459,218
Employee exercise of SARS	11,353,259	288
Employee exercise of options (note 24(b))	37,000,000	2,354
Acquisition of GMM (note 6)	515,456,257	230,902
Payments to contractors/suppliers	4,303,125	1,589
	1,832,545,826	694,351
Transaction costs	-	(19)
Balance at 31 December 2016	1,832,545,826	694,332

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

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

(iii) Listed Options

There are no listed options on issue at 31 December 2016 (2015: Nil)

(iv) Unlisted options

Particulars of unlisted options including options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period is set out in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. EQUITY (CONTINUED)

(b) Reserves

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

	Equity-settled payments reserve	Foreign currency translation reserve	Capital reserve	Fair value reserve	Total reserves
	\$ '\$000	\$ '\$000	\$ '\$000	\$ '\$000	\$ '\$000
Balance at 31 December 2015	8,485	(16,578)	-	1,460	(6,633)
Change in fair value of available-for-sale assets	-	-	-	(1,460)	(1,460)
Foreign currency translation differences	-	(3,834)	-	-	(3,834)
Total comprehensive loss	-	(3,834)	-	(1,460)	(5,294)
Transactions with owners in their capacity as owners					
Acquisition of GMM (note 6)	10,259	-	1,053	-	11,312
Share-based payment transactions	7,417	-	-	-	7,417
Transfer of reserve upon exercise of share options	(932)	-	-	-	(932)
Transfer of reserve upon forfeit of options	(5,660)	-	-	-	(5,660)
Acquisition of non-controlling interest	-	-	3,959	-	3,958
Balance at 31 December 2016	19,569	(20,412)	5,012	-	4,169

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 recognised in accordance with the accounting policy adopted for share-based payments in note 3(m).

Foreign currency translation reserve

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

Fair value reserve

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

Capital reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. EQUITY (CONTINUED)

(c) Capital Management

The Group manages its capital to ensure its entities will be able to continue as going concern while maximising the return to shareholders through the optimisation of its capital structure comprising all components of equity and loans and borrowings.

	2016 \$'000	2015 \$'000
Total interest bearing liabilities	40,242	36,881
Less: cash and cash equivalents	(9,327)	(4,761)
Net debt	<u>30,916</u>	<u>32,119</u>
Total equity	472,986	102,801
Net debt to equity ratio at 31 December	0.07	0.31

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

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

24. SHARE BASED PAYMENTS

(a) Shares

i. Director shares

No Director shares were issued during the year (2015: 27,500,000)

ii. Management shares

No Management shares were issued during the year (2015: 10,900,000)

iii. Financier shares

A total of 3,600,000 shares (2015: 32,232,909 to OCP) were issued to Canaccord during the year under the Canaccord mandate, in the event that Galaxy acquired at least an 80% relevant interest in General Mining, and the Takeover Offer was declared unconditional. Galaxy agreed to issue Galaxy Shares valued at \$2,862,500 to Canaccord, calculated based on the 5 day VWAP of Galaxy Shares when the Takeover Offer became unconditional. The actual number of Galaxy Shares issued was set at 8,745,528, of which 3,600,000 were issued on 16 August 2016. The balance of 5,146,528 shares were issued in 2017.

iv. Shares in lieu of payment

703,125 shares were issued during the year to consultants in lieu of cash settlement for outstanding invoices. The market value of these shares at the date of issue was \$275,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24. SHARE BASED PAYMENTS (CONTINUED)

(b) Options and warrants

i. Director options

A total of 24,750,000 unlisted options were issued to Michael Fotios pursuant to the Options Exchange Deed between the Company and Apollo Corporation (WA) Pty Ltd ATF Apollo Investment A/C as consideration for acquisition of 15 million General Mining Corporation Limited options. The expense for these options was taken up as part of the acquisition cost of the General Mining Corporation Limited takeover.

Tranche 1 (Number)	12,375,000
Dividend yield (%)	0%
Expected volatility (%)	85%
Risk free interest rate (%)	1.49%
Expected life of options (years)	1.12 years
Option exercise price (\$)	\$0.048
Share price at entitlement date (\$)	\$0.47

ii. Director options

Tranche 2 (Number)	12,375,000
Dividend yield (%)	0%
Expected volatility (%)	85%
Risk free interest rate (%)	1.49%
Expected life of options (years)	2.12 years
Option exercise price (\$)	\$0.073
Share price at entitlement date (\$)	\$0.47

iii. Lender Options

No Lender Options were issued during the year (2015: 25,000,000)

iv. Lender Warrants

During the financial year the Company extended its secure loan facility with OL Master (Singapore) Pte and an additional amount of \$16 million was drawn under the facility. As a fee the Company issued OL Master (Singapore) Pte 50 million unlisted warrants (40 million exercisable at \$0.3436 expiring 31 October 2019 and 10 million exercisable at \$0.415 expiring 6 October 2018).

The warrants to be granted to the lender have been valued at \$7,160,000 and capitalised against the secured loan facility on the statement of financial position to be expensed over the period of the loan. During the year ended 31 December 2016, \$5,731,010 (2015: \$11,242) was expensed to the profit or loss. The valuation was calculated using a Black Scholes model with the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	85%
Risk free interest rate (%)	1.67% -1.75%
Expected life of options (years)	2.00 - 3.01 years
Option exercise price (\$)	\$0.344 - \$ 0.415
Share price at entitlement date (\$)	\$0.333 - \$0.335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24. SHARE BASED PAYMENTS (CONTINUED)

v. Consultant Options

Primero was issued 500,000 unlisted options as a performance incentive for reaching certain milestones on the Mt Cattlin commissioning and production ramp-up.

Dividend yield (%)	0%
Expected volatility (%)	85%
Risk free interest rate (%)	1.68%
Expected life of options (years)	1.83 years
Option exercise price (\$)	\$0.40
Share price at entitlement date (\$)	\$0.32

vi. Summary of options and warrants granted

	2016		2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	\$	'000	\$	'000
Outstanding at the beginning of the year	0.22	43,850	0.77	33,500
Exercised during the year	0.05	(37,000)	-	-
Forfeited during the year	1.13	(5,800)	1.16	(14,650)
Expired during the year	-	-	-	-
Granted during the year	0.26	74,750	0.03	25,000
Outstanding at the end of the year	0.28	75,800	0.22	43,850
Exercisable at the end of the year	0.26	74,750	0.13	40,600

vii. Summary of options and warrants outstanding at end of year

Grant date	Options outstanding	Vesting conditions	Non-vesting conditions	Contractual life of option	Exercise price
22/12/2010	1,050,000	Latest to occur of completion of 12 months service from 13 October 2010, and the Company's share price being greater than A\$2 based on the 10 day VWAP.	None	5 years from the vesting date	\$1.16
08/08/2016	12,375,000	Fully vested	None	1 year from issue date	\$0.048
08/08/2016	12,375,000	Fully vested	None	2 years from issue date	\$0.073
07/10/2016	10,000,000	Fully vested	None	2 years from issue date	\$0.415
28/10/2016	40,000,000	Fully vested	None	3.01 years from issue date	\$0.343
Total	75,800,000				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24. SHARE BASED PAYMENTS (CONTINUED)

viii. Fair value of share options and assumptions

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

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

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

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

(c) Share appreciation rights ("SARS")

At the AGM on 29 May 2015 shareholders approved the establishment of the Galaxy Resources Limited Long Term Incentive Plan ("LTIP").

i. Director SARS

No Director SARS were issued during the year ended 31 December 2016. (2015: 26,500,000)

ii. Employee SARS

1,000,000 SARS were issued to employees on 10 November 2016. The SARS were valued at \$234,000, based on two tranches with varying vesting conditions, and expensed to the profit or loss in the year ended 31 December 2016. 75,000 SARS were cancelled during the year with a credit of \$1,695 to retained earnings. The value of the SARS issued was calculated using Black Scholes models with the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	85%
Risk free interest rate (%)	1.95%
Expected life of options (years)	5.85-6.85 years
Option exercise price (\$)	\$0.324
Share price at entitlement date (\$)	\$0.320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24. SHARE BASED PAYMENTS (CONTINUED)

iii. Summary of SARS granted

	2016		2015	
	Weighted average exercise price	Number of SARS	Weighted average exercise price	Number of SARS
	\$	'000	\$	'000
Outstanding at the beginning of the year	0.03	34,100	-	-
Granted during the year	0.32	1,000	0.03	37,100
Exercised during the year	0.03	(12,200)	-	-
Forfeited during the year	-	-	0.03	(3,000)
Expired during the year	0.03	(75)	-	-
Outstanding at the end of the year	0.04	22,825	0.03	34,100
Exercisable at the end of the year	0.02	13,500	0.03	17,050

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

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

	2016	2015
	\$'000	\$'000
<i>Recognised as employment costs in the profit or loss:</i>		
Expense arising from directors, or their nominees shares and SARS	-	1,866
Expense arising from employee shares and SARS	234	580
	<u>234</u>	<u>2,446</u>
<i>Recognised as finance costs in the profit or loss:</i>		
Expense arising from financier shares and warrants	5,731	97
Expense arising from lender options	-	430
	<u>5,731</u>	<u>527</u>
Total share based payments	<u>5,965</u>	<u>2,973</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

25. PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ended 31 December 2016, the parent company of the Group was Galaxy Resources Limited.

	2016 \$'000	2015 \$'000
Result of the parent entity		
Profit (loss) for the year	53,065	5,629
Other comprehensive profit/(loss)	(1,460)	1,455
Total comprehensive profit/(loss) for the year	<u>51,605</u>	<u>7,084</u>
Financial Position of parent entity at year end		
Current Assets	6,432	7,147
Total Assets	<u>421,428</u>	<u>102,442</u>
Current Liabilities	45,413	984
Total Liabilities	<u>45,413</u>	<u>29,278</u>
Total equity of the parent entity comprising of:		
Contributed Equity	694,332	459,218
Reserves	24,581	9,940
Accumulated losses	(342,929)	(395,994)
Total Equity	<u>375,985</u>	<u>73,164</u>

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its Australian subsidiaries. Refer to note 32 for further details.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

26. COMMITMENTS

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

Mining tenements

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

	2016 \$'000	2015 \$'000
Within one year	300	521
More than one year but less than five years	294	-
	<u>594</u>	<u>521</u>

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

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

	2016 \$'000	2015 \$'000
Within one year	171	195
More than one year but less than five years	34	7
More than five years	-	-
	<u>205</u>	<u>202</u>

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

27. RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	2016 \$	2015 \$
Salaries and other short-term emoluments	1,367,763	979,419
Contributions to retirement benefit schemes	16,451	4,338
Share-based payments	22,933	1,879,400
	<u>1,407,147</u>	<u>2,863,157</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

28. AUDITOR'S REMUNERATION

During the year, the following fees were paid or payable for services provided by the auditor of the parent:

	Audit services	Taxation & other services	Total	Audit services	Taxation & other services	Total
Auditors of the Company	2016	2016	2016	2015	2015	2015
	\$	\$	\$	\$	\$	\$
- PwC Australia:	230,000	75,790	305,790	169,000	108,938	277,938
- PwC China	-	-	-	-	-	-
- PwC Netherlands	-	5,425	5,425	-	-	-
- PwC Hong Kong	-	89,650	89,650	-	218,465	218,465
- PwC Canada	-	20,809	20,809	-	32,173	32,173
- PwC USA	-	16,502	16,502	-	19,298	19,298
- PwC Argentina	-	-	-	-	13,750	13,750
Total paid to PwC for the provision of services	230,000	208,175	438,176	169,000	392,624	561,624

29. EVENTS SUBSEQUENT TO REPORTING DATE

On 3 January 2017 Mr Peter Bacchus and Mr John Turner were appointed to the board as independent non-executive directors.

Following the successful recommissioning of the Mt Cattlin project, the Company announced the first shipment of lithium concentrate on 2 January 2017, and the second shipment on 1 March 2017.

On 19 January 2017 the Company announced that it had entered into a US\$40 million secured debt facility with BNP Paribas which was subsequently reduced to US\$25 million. At the date of this report US\$10 million has been drawn under the facility.

On 5 February 2017 the Company issued 113,000,000 shares as a private placement at an issue price of \$0.54 to raise approximately \$61 million.

On 16 February 2017 the OL Master (Singapore) Pte loan facility was repaid in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

The Group's Audit 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.

(a) 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 NP 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:

	<i>Note</i>	Carrying amount	
		2016	2015
		\$'000	\$'000
Trade and other receivables	13	1,940	6,618
Cash and cash equivalents	12	9,327	4,761
		11,267	11,379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

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

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

31 December 2016

	Carrying amount	Undiscounted contractual cash outflows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	14,082	14,082	14,082	-	-	-
Secured loan facility	40,242	45,575	45,575	-	-	-
Total	54,324	59,657	59,657	-	-	-

31 December 2015

	Carrying amount	Undiscounted contractual cash outflows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	1,361	1,361	1,361	-	-	-
Secured bank loans	28,293	40,300	3,100	3,100	34,100	-
Total	29,654	41,661	4,461	3,100	34,100	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Foreign exchange risk

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

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

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

Group	2016		2015	
	USD \$'000	AUD \$'000	USD \$'000	AUD \$'000
Cash and cash equivalents	165	229	2,791	3,824
Interest bearing liabilities	-	-	-	-
Balance sheet exposure	165	229	2,791	3,824

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
AUD				
USD 1	0.744	0.753	0.720	0.730

Sensitivity analysis

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

Effect in Australian dollars	31 December 2016		31 December 2015	
	Equity	Profit for the period	Equity	Profit for the period
USD \$'000	-	21	-	348

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

Interest rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Group	31 December 2016	31 December 2015
	\$'000	\$'000
Cash and cash equivalents	\$9,327	\$4,761
- Interest rate	0% to 0.70%	0% to 1.39%
Interest bearing liabilities	\$44,698	\$31,000
- Interest rate	8% to 10%	10%

Sensitivity Analysis

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

	Year Ended 31 December 2016	Year Ended 31 December 2015
Cash and cash equivalents	\$'000	\$'000
Increase of 100 basis points	(93)	(48)
Decrease of 100 basis points	93	48

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

(d) Fair value hierarchy

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

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

Group	31 December 2016			31 December 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Available-for-sale financial assets	-	-	-	1,549	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Financial liabilities at fair value through the profit and loss	2016 \$'000	2015 \$'000
Balance at 1 January	-	60,000
Convertible bonds repaid	-	(60,000)
Balance at 31 December	-	-

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

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

31. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical judgements

Impairment of assets, reversal of impairments on assets

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

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

(b) Estimates and assumptions

(i) Ore reserves

Economically recoverable ore reserves represent the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The Group determines and reports ore reserves under the standards incorporated in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2012 edition (the JORC Code). The determination of ore reserves includes estimates and assumptions about a range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Changes in ore reserves impact the assessment of recoverability of exploration and evaluation assets, property, plant and equipment, the carrying amount of assets depreciated on a units of production basis, provision for site restoration and the recognition of deferred tax assets, including tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(ii) Exploration and evaluation assets

Determining the recoverability of exploration and evaluation assets capitalised in accordance with the Group's accounting policy (see note 3(c)) requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploration, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves (see note 31(b)(i) above), the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under the accounting policies, a judgment is made that the recovery of the expenditure is unlikely, an impairment loss is recorded in the profit or loss in accordance with accounting policy (see note 3(e)).

(iii) Provision for rehabilitation

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

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

(iv) Share based payments

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

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

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

(v) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition comprises the fair value of the assets transferred, liabilities incurred and the equity interests issued by the group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair value at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(v) Business combinations (continued)

The financial assets and liabilities acquired are assessed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's accounting policies and other pertinent conditions as at the acquisition date to finalise the fair value of identifiable assets and liabilities.

(vi) 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 utilised. Actual utilisation 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 recognised as deferred tax assets of \$64.7million (2015: \$nil).

32. DEED OF CROSS GUARANTEE

Pursuant to Class Order 98/1418, relief has been granted to Galaxy Lithium Australia Limited, Galaxy Lithium Pty Ltd and General Mining Corporation Limited from the Corporations Act 2001 requirements for the preparation, audit and lodgment of a financial report. As a condition of the Class Order, Galaxy Resources Limited and Galaxy Lithium Australia Limited ("Closed Group") entered into a Deed of Cross Guarantee on 19 September 2011. A variation deed was entered into on 20 December 2016 between Galaxy Resources Limited, Galaxy Lithium Pty Ltd, Galaxy Lithium Australia Limited and General Mining Corporation Limited. The effect of this deed is that Galaxy Resources Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Galaxy Resources Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and the controlled entities which are party to the Deed, after eliminating all transactions between the parties to the Deed of Cross Guarantee, for the year ended 31 December 2016 is set out as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

32. DEED OF CROSS GUARANTEE (CONTINUED)

Condensed statement of profit or loss and other comprehensive income

	2016 \$'000	2015 \$'000
Finance income	29	4,277
Other income	13	50
Gain on sale of subsidiary	-	53,715
Expenses		
Operating costs	(278)	(110)
Administration costs	(5,009)	(4,074)
Employment costs	(2,529)	(4,317)
Depreciation	(63)	(74)
Finance costs	(9,058)	(9,601)
Foreign exchange gains	(323)	357
Reversal of Impairment on property, plant and equipment	75,691	-
Impairment of exploration and evaluation	(38)	(319)
Realised gain on available-for-sale assets	4,455	-
Transaction costs on GMM acquisition	(3,931)	-
Profit before taxation	58,959	39,904
Income tax	64,686	-
Profit for the year	123,645	39,904
Other comprehensive loss/(profit)	(1,460)	1,455
Total comprehensive profit for the year	122,185	41,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

32. DEED OF CROSS GUARANTEE (CONTINUED)

Consolidated statement of financial position

	2016 \$'000	2015 \$'000
CURRENT ASSETS		
Cash and cash equivalents	9,181	4,189
Other receivables and prepayments	2,125	6,599
Inventories	11,457	1,065
TOTAL CURRENT ASSETS	<u>22,763</u>	<u>11,852</u>
NON-CURRENT ASSETS		
Property, plant and equipment	340,625	1,492
Exploration and evaluation assets	5,382	3,669
Available-for-sale financial assets	-	1,530
Other receivables and prepayments	34,141	31,056
Investments in subsidiaries	86,105	86,105
Deferred tax asset	64,686	-
TOTAL NON-CURRENT ASSETS	<u>530,939</u>	<u>123,852</u>
TOTAL ASSETS	<u>553,702</u>	<u>135,704</u>
CURRENT LIABILITIES		
Trade and other payables	14,193	1,097
Deferred income	18,374	-
Provisions	177	52
Interest bearing liabilities	40,242	-
TOTAL CURRENT LIABILITIES	<u>72,986</u>	<u>1,149</u>
NON-CURRENT LIABILITIES		
Provisions	4,050	2,995
Interest bearing liabilities	-	28,293
TOTAL NON-CURRENT LIABILITIES	<u>4,050</u>	<u>31,288</u>
TOTAL LIABILITIES	<u>77,036</u>	<u>32,437</u>
NET ASSETS	<u>476,666</u>	<u>103,266</u>
CAPITAL AND RESERVES		
Contributed equity	694,332	459,218
Reserves	24,581	9,940
Accumulated losses	(242,247)	(365,892)
TOTAL EQUITY	<u>476,666</u>	<u>103,266</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

33. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2016 \$'000	2015 \$'000
Profit/(loss) for the year	122,706	54,862
Adjustments for:		
Gain on sale of subsidiary	-	(70,443)
Depreciation and amortisation	88	123
Net finance costs	9,389	-
Impairment reversal	(75,653)	319
Share-based payments	234	2,973
Realised gain on available-for-sale assets	(4,455)	-
Transaction costs on GMM Acquisition	4,747	-
	<u>(65,649)</u>	<u>(67,027)</u>
Change in trade and other receivables	2,967	591
Change in payables	6,938	5,274
Change in inventories	220	(547)
Change in prepayments	(29)	252
Change in provisions and employee benefits	154	(599)
Change in deferred tax assets	(64,686)	-
	<u>(54,437)</u>	<u>4,971</u>
Net cash inflow/(outflow) from operating activities	<u>2,621</u>	<u>(7,194)</u>

34. NON-CASH FINANCING AND INVESTING ACTIVITIES

		2016 \$'000	2015 \$'000
Conversion of secured loan to equity	-	-	4,516
Net settlement of debt with purchaser on sale of discontinued operations	-	-	56,757
GMM acquisition consideration	6	246,458	-
Warrants issued to lenders in conjunction with financing arrangements	21(a)	7,160	-
Issuance of shares and warrants to contractors in conjunction with the recommissioning of Mt Cattlin and exploration and evaluation activities	15	1,589	-
Issuance of shares to advisors of GMM for settlement of transaction advice services	24	1,710	-

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Galaxy Resources Limited:
- (a) the consolidated financial statements and notes set out on pages 22 to 80 are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial year ended that date; and
 - ii. complying with Accounting Standards, other mandatory professional reporting requirements and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. there are reasonable grounds to believe that the Company and the group entities identified in note 32 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.
3. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in note 2(a).

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

Signed in accordance with a resolution of the Directors:

Dated at Perth, this 31st day of March 2017.



A P Tse
Managing Director

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Independent auditor's report

To the shareholders of Galaxy Resources Limited

Report on the audit of the financial report

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 2016 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards *and the Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the consolidated statement of financial position as at 31 December 2016
- 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 profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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 primary activity of the Group in the current year has been the recommissioning of the Mt Cattlin operation in Western Australia as well as performing exploration and development activities in Canada and Argentina.



Materiality

- For the purpose of our audit we used overall group materiality of \$5.5 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 does not have significant revenue-earning operations for the year, 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 that 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 requirements 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 exploration and development stage entities.

Audit Scope

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

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.

Key audit matter

How our audit addressed the key audit matter

Impairment reversal of Mt Cattlin property, plant and equipment

Refer to note 15 to the financial report

The Mt Cattlin operations were suspended in July 2012 and property, plant and equipment (PPE) related to those operations had been previously impaired in the 2011, 2012 and 2013 financial years.

On 7 September 2015, the Group executed an Acquisition and Development Agreement (ADA) with General Mining Corporation Limited (GMM) whereby GMM acquired a 50% interest in Mt Cattlin's operations and was obliged to bring the Mt Cattlin operations back into production. Key offtake agreements were also signed in 2016 with customers.

The Group determined that the start of construction and ongoing recommissioning activity under the ADA at Mt Cattlin together with the entering into offtake agreements for anticipated production provided objective evidence that conditions leading to its past impairments were no longer present and were an indicator that they should be considered for reversal.

During the current year, an impairment reversal of \$75.69 million has been recognised in profit. When determining the amount of the impairment reversal, the Group's accounting policy is that the carrying amount for PPE should be reversed not to fair value but to the carrying balance that would have been determined after amortisation or depreciation had no impairment loss been recognised in prior periods.

The impairment reversal was a key audit matter given the required judgement by the Group over the indicators of impairment reversal and given the financial significance of the reversal to the financial report.

We considered the Group's reassessment of the recoverable amount of PPE for Mt Cattlin and its conclusion to recognise an impairment reversal by performing the following procedures:

- reading the ADA between the Group and GMM and key documents associated with the formation of the Mt Cattlin unincorporated joint venture
- visiting the Mt Cattlin site in December 2016 to inspect the construction and recommissioning activities occurring on site
- inspecting the new offtake agreements with customers for the sale of lithium carbonate and checking that the contract sales prices were greater than historical pricing
- reperforming the calculation of the carrying amount for PPE that would have been determined after amortisation or depreciation had no impairment loss been recognised in prior periods and agreeing key inputs in the calculation to historical PPE data
- testing that the impairment reversal recognised did not exceed the carrying amount of PPE that would have been determined had no impairment loss been recognised in prior periods. This included consideration of the impact of selling a 50% interest in Mt Cattlin and limiting the impairment reversal to the extent of the Group's retained interest in the assets that were originally impaired.

We also evaluated the adequacy of the disclosures made in note 15 in light of the requirements of Australian Accounting Standards.

Key audit matter

How our audit addressed the key audit matter

Acquisition of GMM

Refer to note 6 of the financial report

On 28 July 2016, the Group gained control of GMM, a publicly traded company on the Australian Securities Exchange. The Company issued consideration of 1.65 of its shares for each GMM share. The Company was also obliged to replace the outstanding GMM options on the same terms. On acquisition, the fair value of the equity instruments issued to GMM share and option holders along with other consideration recognised in the financial report totalled \$263.0 million.

The acquisition of GMM is a complex accounting matter. The accounting standards require the Group to identify all assets and liabilities of the newly acquired subsidiary and estimate the fair value of each item. The fair value of these items may be significantly different to the historical cost which had been previously recorded by the acquired business. The items may not have previously met the recognition criteria under accounting standards.

The acquisition accounting was a key audit matter given its financial significance to the Group and because significant judgement is involved in assigning a fair value to the assets and liabilities acquired and the equity instruments issued by the Company.

We read key transaction documents and assessed how the Group estimated the fair value of the equity interests it issued to the former share and option holders of GMM and the provisional fair value of assets and liabilities identified in the acquisition. In particular, we focussed on significant judgements made by the directors in assessing the fair value of:

- equity interests issued, by:
 - assessing the acquisition date determined by the Group to value its shares issued
 - assessing the fair value of options issued by the Group using an option pricing model
- plant and equipment, by comparing its depreciable replacement cost to the estimation determined by an external valuation adviser to the Group
- stockpiles and mineral interests assets, by comparing them to an external valuation performed at the acquisition date by an external valuation advisor to the Group. As key assumptions incorporated in this valuation materially impact the fair value of mineral interest assets, we also performed the following over key assumptions:
 - compared pricing forecasts for lithium concentrate and tantalum to industry forecasts
 - compared foreign exchange rate assumptions to market consensus forward curves
 - compared the asset specific discount rate for Mt Cattlin used in the valuation to other market participants' average cost of capital, assisted by PwC valuations experts
 - read the Group's mine plan, including estimated mining and processing costs.

We evaluated the competency and independence of experts retained by management to assess the value of plant and equipment, stockpiles and mineral interests.

We assessed the proportionate allocation of value of the non-controlling interest that existed on the date the Group obtained control of GMM which was subsequently acquired by the Group during the year.

We also evaluated the adequacy of the disclosures made in note 6 in light of the requirements of Australian Accounting Standards.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Recognition and measurement of deferred tax assets</i></p> <p><i>Refer to note 8 to the financial report</i></p> <p>Following the start of construction and recommissioning activity at Mt Cattlin, the Group recognised \$64.7 million of net deferred tax assets, primarily comprising the anticipated benefit of existing tax losses reducing future tax payable.</p> <p>The recognition and measurement of these deferred tax assets was a key audit matter given that there was significant judgement in assessing whether there will be enough future taxable profits to utilise the existing tax losses.</p>	<p>We obtained and tested the accuracy of the Group's reconciliation of the available carry forward tax losses at 31 December 2016. We also considered advice that the Group received with respect to the availability of these losses under current Income Tax Legislation.</p> <p>We evaluated the Group's rationale for the recognition and measurement of the net deferred tax assets of \$64.7 million by obtaining calculations of forecast taxable income for the operations of Mt Cattlin in order to evaluate the Group's conclusion that sufficient taxable income would likely be earned in the future to utilise the tax losses for which deferred tax assets have been recognised. We checked the consistency of the forecast taxable income with the forecasts in the accounting for the acquisition of GMM.</p>
<p><i>Closure and rehabilitation provisions</i></p> <p><i>Refer to note 20 to the financial report</i></p> <p>As a result of its mining and processing operations, the Group is obliged to restore and rehabilitate the environment disturbed by these operations. Rehabilitation activities are governed by a combination of legislative requirements and Group policies. At 31 December 2016 the consolidated statement of financial position included provisions for such obligations of \$8.4 million.</p> <p>This was a key audit matter given the determination of these provisions required judgement in the assessment of the nature and extent of the work to be performed, the future cost of performing the work, the timing of when the rehabilitation will take place and economic assumptions such as the discount rate and inflation rates for future cash outflows associated with rehabilitation activities.</p>	<p>We considered the Group's assessment of the work required to rehabilitate disturbed areas and the estimated future cost of that work which forms the basis for the closure and rehabilitation provision calculations (the models) for Australia and Canada.</p> <p>We evaluated and tested key assumptions utilised in these models by performing the following procedures:</p> <ul style="list-style-type: none"> • comparing the rehabilitation costs being estimated at the Group's sites to assessments of rehabilitation prepared by external experts • examining support for significant changes in future cost estimates from the prior year • assessing the timing of work to be performed by comparison to mine plans and/or other environmental requirements • considering the appropriateness of the discount rates and inflation rates utilised in calculating the provision by comparing them to current market consensus.
<p><i>Other information</i></p> <p>The directors are responsible for the other information. The other information comprises the Chairman's Letter to Shareholders, Directors' Report, Corporate Governance Statement and ASX Additional Information included in the Group's annual report for the year ended 31 December 2016 but does not include the financial report and our auditor's report thereon.</p> <p>Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.</p>	



In connection with our audit of the financial report, our responsibility is to read the other information identified above 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, 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.

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.

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_files/ar2.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 19 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Galaxy Resources Limited for the year ended 31 December 2016 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.

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A handwritten signature in blue ink that reads 'Henry' with a stylized flourish at the end.

Nick Henry
Partner

Perth
31 March 2017

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CORPORATE GOVERNANCE STATEMENT

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

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

Further information about the Company’s corporate governance practices is set out on the Company’s website at www.galaxylithium.com.

This Statement was approved by the Board of Directors and is current as at 29 March 2017.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

The Company has complied with this recommendation.

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

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

The Company has partly complied with this recommendation.

On 8 August 2016 Michael Fotios was elected as a Director following the acquisition of General Mining Corporation Limited (“GMM”) by the Company. As Mr Fotios was a director of GMM, an ASX Listed Company at the time of acquisition and it was a condition of the successful takeover of GMM that Mr Fotios be appointed a Director, no checks were undertaken. Mr Fotios resigned as a Director on 23 December 2016.

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

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

The Company has partly complied with this recommendation.

CORPORATE GOVERNANCE STATEMENT

The Company has in place written agreements with each current Director. No formal agreement was entered into with Mr Fotios due to him being a director of General Mining Corporation Limited at the time of his appointment, an ASX listed company. Given the short tenure of Mr Fotios' appointment, a formal agreement was not entered into with Galaxy Resources Limited.

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

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

ASX Recommendation 1.5: a listed entity should:

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

The Company partly complies with this recommendation.

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

The Company has not yet set measurable objectives to achieve Gender Diversity. The Company has grown rapidly in the previous 12 months due to the acquisition of General Mining Corporation Limited and commencement of production at the Mt Cattlin project. The Board will consider setting measurable objectives during the next financial year.

There are no women currently on the Board. The company currently has 14 female employees, including in senior management positions, which represents 25% of the total management workforce including Directors.

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

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

A performance review was undertaken during the reporting period.

CORPORATE GOVERNANCE STATEMENT

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

The Company has complied with this recommendation.

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

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

The Company conducted a performance review of senior executives during the year.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

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

The Company partly complied with this recommendation.

The current members of the Remuneration and Nomination Committee are:

Mr John Turner (Chairman)
 Mr Martin Rowley
 Mr Jian-Nan Zhang
 Mr Peter Bacchus

Mr. Charles Whitfield was a member of the committee until he resigned as a Director on 19 August 2016. Following Mr Whitfield's resignation, the committee had only 2 members until Mr John Turner and Mr Peter Bacchus were appointed to the committee on 29 March 2017.

The qualifications of the members of the committee are set out in the Directors' Report.

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

CORPORATE GOVERNANCE STATEMENT

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

The Company has complied with this recommendation. The Board has established a skill matrix. On a collective basis the Board has the following skills:

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

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

International experience - members of the Board have an understanding of the complexities of operating in foreign jurisdictions.

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

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

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

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

Legal - Members of the Board have either specific legal qualifications and experience in general corporate, mining, fiscal and labour laws and or the ability to consider the legal requirements of the company's business operations and transactions contemplated by the Company.

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

The Company has complied with this recommendation.

During the year, the Chairman Mr. Martin Rowley and Mr Jian-Nan Zhang were considered Independent Directors. Currently Messrs Rowley, Zhang, Bacchus and Turner (a majority of the Board) are considered independent.

The appointment date of current Directors are set out in the Directors Report.

CORPORATE GOVERNANCE STATEMENT

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

The Company partly complied with this recommendation. For part of the year the majority of the board were not considered independent. The majority of Board members are now considered independent.

The Board considers that the composition of the Board during the financial year was appropriate for its size and level of operations. Given the change in size of the Company and scale of operations during the year, 2 new independent Non-Executive Directors have recently been appointed.

The Board will continue to assess its size and composition to ensure it remains appropriate for the Company's level of activities.

ASX Recommendation 2.5: The Chair of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.
The Company has complied with this recommendation.

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

Mr Anthony Tse is Managing Director of the Company.

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

The Company has complied with this recommendation.

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

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

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

The Company has complied with this recommendation.

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

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

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

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

The Company partly complied with this recommendation.

The current members of the Audit and Risk Committee are:

Mr Peter Bacchus (Chairman)
 Mr Martin Rowley
 Mr Jian-Nan Zhang
 Mr John Turner

Mr Charles Whitfield was a member of the committee until he resigned as a Director on 19 August 2016. Following Mr Whitfield's resignation, the committee had only 2 members until Mr Peter Bacchus and Mr Turner were appointed to the committee on 29 March 2017.

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

Given the size of the Board not all members of the Audit and Risk Committee were non-executive Directors until Mr Whitfield's resignation. All members of the committee are now Non-Executive Directors, all of whom are considered independent.

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

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

The Company partly complies with this recommendation.

The Board has received the assurance required by ASX Recommendation 4.2 in respect of the financial statements for the half year ended 30 June 2016 and the full year ended 31 December 2016. Given the size and nature of the Company's operations during the year, the Board did not receive the assurance in respect of the quarterly cash flow statements believing that the provision of the assurance for the half and full year financial statements was sufficient.

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CORPORATE GOVERNANCE STATEMENT

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

The Company has complied with this recommendation.

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

The Company has complied with this recommendation.

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

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

The Company has complied with this recommendation.

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

CORPORATE GOVERNANCE STATEMENT

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

The Company has complied with this recommendation.

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

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

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

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

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

The Company has complied with this recommendation.

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

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

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

The Company has complied with this recommendation.

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

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

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

ASX Recommendation 7.1: The Board of a listed entity should have a committee to oversee risk:

- With at least three members, a majority of which are independent directors;
- Chaired by an independent director; and
- Disclose the charter of the committee, the members of the committee and the number of times the committee met throughout the period and member attendance at those meetings.

The Company partly complied with this recommendation.

The current members of the Audit and Risk Committee are:

Mr Peter Bacchus (Chairman)
 Mr Martin Rowley
 Mr Jian-Nan Zhang
 Mr John Turner

Mr Charles Whitfield was a member of the committee until he resigned as a Director on 19 August 2016. Following Mr Whitfield's resignation, the committee had only 2 members until Mr Peter Bacchus and Mr John Turner appointed to the committee on 29 March 2017 as Chairman.

The qualifications of the members of the committee are set out in the Directors Report.

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

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

The Board conducted a review during the reporting period.

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

The Company does not have an internal audit function.

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

CORPORATE GOVERNANCE STATEMENT

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

The Company has complied with this recommendation.

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

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

The Company is also exposed to commodity pricing, internet rate and foreign exchange risk.

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

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

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

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

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

The Company partly complied with this recommendation.

The current members of the Remuneration and Nomination Committee are:

Mr John Turner (Chairman)
 Mr Martin Rowley
 Mr Jian-Nan Zhang
 Mr Peter Bacchus

CORPORATE GOVERNANCE STATEMENT

The qualifications of the members of the committee are set out in the Directors' Report.

Mr Whitfield was a member of the committee until he resignation as a Director on 19 August 2016. Following Mr Whitfield's resignation the committee had only two members until Mr John Turner and Mr Peter Bacchus were appointed to the committee on 29 March 2017.

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

The Company has complied with this recommendation.

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

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

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

The Company has complied with this recommendation.

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

ASX ADDITIONAL INFORMATION

1. Top 20 Shareholders at 22 March 2017

Shareholder	Units	% of Units
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	250,796,677	12.73
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	241,134,921	12.24
3. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	111,198,953	5.64
4. CITICORP NOMINEES PTY LIMITED	106,767,619	5.42
5. NATIONAL NOMINEES LIMITED	81,086,905	4.11
6. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	36,107,986	1.83
7. CREAT RESOURCES HOLDINGS LIMITED	36,084,912	1.83
8. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	28,685,418	1.46
9. MR ANTHONY PETER TSE	23,518,644	1.19
10. BNP PARIBAS NOMS PTY LTD <DRP>	22,672,473	1.15
11. GFL INTERNATIONAL CO LTD	22,488,614	1.14
12. MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	19,597,843	0.99
13. MARFORD GROUP PTY LTD	18,158,110	0.92
14. UBS NOMINEES PTY LTD	15,669,315	0.80
15. CITOS SUPER PTY LTD <CITOS PTY LTD SF A/C>	15,000,000	0.76
16. MR PHILLIP RICHARD PERRY	14,776,836	0.75
17. INVESTMET LIMITED	12,000,000	0.61
18. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	11,451,854	0.58
19. PURESTEEL HOLDINGS PTY LTD <RATTIGAN SUPER FUND A/C>	11,238,660	0.57
20. BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	10,572,424	0.54
	1,089,008,164	55.26

2. Share Holdings at 22 March 2017

Range	Total holders	Units	% of Issued Capital
1 - 1,000	800	445,052	0.02
1,001 - 5,000	3,970	11,422,387	0.58
5,001 - 10,000	2,653	22,192,074	1.13
10,001 - 100,000	6,067	209,371,928	10.63
100,001 - 999,999,999	1,194	1,727,114,385	87.65
Total	14,684	1,970,545,826	100.00

Unmarketable Parcels

	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.505 per share	560	205,077

ASX ADDITIONAL INFORMATION

3. Names of Substantial Holders

There are no substantial holders notified.

4. Number and Distribution of Unlisted Options and Warrants

	Options 21/9/17	Options 21/9/18	Options Various	Warrants 6/10/18	Warrants 31/10/19
Exercise Price	\$0.048	\$0.073	\$1.16	\$0.415	\$0.3436
Distribution					
10,000 – 100,000	-	-	1	-	-
100,001 - over	1	1	1	1	1
Total Holders	1	1	2	1	1
Total Units	12,375,000	12,375,000	1,050,000	10,000,000	15,000,000

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

Apollo Corporation (WA) Pty Ltd <Apollo Investment A/C> – Unlisted options exercisable at \$0.048 on or before 21 September 2017 – 12,375,000(100%)

Apollo Corporation (WA) Pty Ltd <Apollo Investment A/C> – Unlisted options exercisable at \$0.073 on or before 21 September 2018 – 12,375,000 (100%)

OL Master (Singapore) Ltd – Unlisted warrants exercisable at \$0.415 on or before 6 October 2018 – 10,000,000 (100%)

OL Master (Singapore) Ltd – Unlisted warrants exercisable at \$0.3436 on or before 31 October 2019 – 15,000,000 (100%)

Distribution of Share Appreciation Rights (issued under an employment incentive scheme)

Distribution	
100,000 – 1,000,000	4
1,000,000 - Over	6
Total Holders	10
Total Units	24,825,000

5. Restricted Securities

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

ASX ADDITIONAL INFORMATION

6. On Market Buy-back

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

7. Tenement Schedule

Project	Tenement	Notes (100% interest unless stated)
Argentina		
Sal De Vida	Various	
Australia		
Boxwood Hill	E70/2493	
Ravensthorpe		
Bakers Hill	E74/299	
	E74/415	
Floater	E74/400	
Mt Cattlin	L74/46	
	L74/48	
	M74/244	
Sirdar	E74/401	80% Interest with Traka Resources.
West Kundip	L74/47	
	M74/133	
	M74/238	
Chesterfield	E51/1602	
	E51/1603	
	E51/1604	
Mercury Hill	M45/0538	
Meekatharra	M51/0270	
	M51/0353	
	M51/0451	
Canada		
James Bay	Various	

ASX ADDITIONAL INFORMATION

8. Mineral Reserves and Resources

The Company has reviewed its Mineral Resources and Mineral Reserves as at 31 December 2016.

The following information in relation to the Company's Mineral Resources and Mineral Reserves is relevant as at 31 December 2015 and 31 December 2016.

Sal de vida Project

31/12/2016

Table 1 – Summary of Mineral Resource Estimate

Resource Category	Brine Volume (m ³)	Avg. Li (mg/l)	In situ Li (tonnes)	Li ₂ CO ₃ Equivalent (tonnes)	Avg. K (mg/l)	In situ K (tonnes)	KCl Equivalent (tonnes)
Measured	7.2 x 10 ⁸	787	565,000	3,005,000	8,695	6,241,000	11,902,000
Indicated	7.0 x 10 ⁸	712	501,000	2,665,000	8,021	5,641,000	10,757,000
M+Ind	1.4 x 10 ⁹	750	1,066,000	5,670,000	8,361	11,882,000	22,659,000
Inferred	3.8 x 10 ⁸	764	294,000	1,562,000	8,428	3,237,000	6,174,000
TOTAL M+Ind+Inf	1.8 x 10⁹	753	1,360,000	7,232,000	8,377	15,119,000	28,833,000

Note: Assumes 500 mg/L Li cut off

Table 2 – Probable and Proven Reserve Statement April 2013

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

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

Assumes 500 mg/L Li cut off

ASX ADDITIONAL INFORMATION

31/12/2015

Table 3 – Summary of Mineral Resource Estimate

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

Cut-off grade: 500 mg/L lithium

Table 4 – Probable and Proven Reserve Statement April 2013

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

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

Assumes 500 mg/L Li cut off

ASX ADDITIONAL INFORMATION

James Bay Project

31/12/2015 and 31/12/2016

Table 1 James Bay Mineral Resource Estimate, November 2010

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

Note: Reported at a cut-off grade of 0.75 percent Li₂O inside conceptual pit shells with overall pit slope of forty-five degrees. All figures rounded to reflect the relative accuracy of the estimates. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

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

Mt Cattlin Project

31/12/2015 and 31/12/2016

Table 1 Mt Cattlin Resource Estimate, 0.4% cut off, depleted for July 2012 EOM surface

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

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

ASX ADDITIONAL INFORMATION

Table 2 Mt Cattlin Ore Reserve September 2010, 0.4% cut off, depleted for July 2012 EOM surface

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

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

Controls and Governance

In respect to the Sal di Vida the Company engaged independent consultants to prepare the mineral resource and reserve estimates.

In the course of doing so the consultants have:

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

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

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

ASX ADDITIONAL INFORMATION

Competent Persons Statements

Sal de Vida Project

31/12/2016

The information in this report that relates to Mineral Resources and Reserves for the Sal de Vida project as at the date of this report and at 31/12/2016 is extracted from the report entitled "Sal de Vida: Revised Definitive Feasibility Study Confirms Low Cost, Long Life And Economically Robust Operation" created on 22 August 2016 which is available to view on www.galaxylithium.com and www.asx.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company understands that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

31/12/2015

The information in this document that relates to Mineral Resources and Reserves for the Sal de Vida project as at 31/12/2015 has been compiled by Mr Michael Rosko. Mr Rosko, is a member of a recognised Overseas Professional Organisation. Mr Rosko is a full time employee of E.L. Montgomery and Associates and has sufficient relevant experience of the style of mineralisation and type of deposit under consideration and of the activity that he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code. Mr Rosko consents to the inclusion in this document of the matters based on his information in the form and context in which it appears. This information was prepared and first disclosed under the JORC Code 2004. At 31 December 2015 it had not been updated to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

James Bay Project

The information in this report that relates to Mineral Resources at the James Bay Project is based on work completed by Mr James McCann, who is a Member of a Recognised Overseas Professional Organisation. Mr McCann is a full time employee of McCann Geosciences, and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr McCann consents to the inclusion in the report of the matters based on his information in the form and context it appears. This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

Mt Cattlin Project

Resource and Reserve Estimates

The information in this report that relates to the estimation and reporting of the Mt Cattlin Project Mineral Resources and Mineral Reserves is extracted from the report entitled "Mt Cattlin Update: Revised Resource & Reserve Statement" created on 4 August 2015 published by General Mining Corporation Limited (ASX: GMM) which is available to view at: <http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01647435>.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement made by GMM. The Company understands that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.