

DECEMBER 2019 QUARTERLY ACTIVITIES REPORT

Sal de Vida pilot program underway and Mt Cattlin remains a competitive low-cost producer

Galaxy Resources Limited (ASX: GXY, “Galaxy” or the “Company”) is leveraging its portfolio of world-class development assets to create a sustainable, large scale, global lithium chemicals business. Galaxy is pleased to report on activities undertaken in the December 2019 quarter and its financial position as at 31 December 2019.

QUARTERLY HIGHLIGHTS

Corporate Strategy

- ◆ Released a simplified strategy focused on accelerating development of the Company’s first tier asset, the Sal de Vida project.
- ◆ Sal de Vida to be executed in 2-3 stages to smooth capital expenditure and reduce project risk.
- ◆ Sal de Vida’s product strategy to initially target commercial primary lithium carbonate to accelerate earnings realization.
- ◆ Mt Cattlin operations focused on optimising production and costs whilst meeting customer demand in 2020.

Production & Operations

- ◆ Mt Cattlin production volume of 43,222 dry metric tonnes (“dmt”) of lithium concentrate, grading 6.0% Li₂O, the upper end of production guidance of 35,000 – 45,000 dmt.
- ◆ Mt Cattlin quarterly production unit cash cost of US\$406 / dmt and full year of US\$391 / dmt, reinforcing Mt Cattlin as one of the lowest cost lithium concentrate operations globally.
- ◆ Total sales volume of 29,778 dmt, just below guidance (30,000 – 45,000 dmt).
- ◆ 14,778 dmt of sales volume shipped and a further 15,000 dmt was not shipped before year end. The customer, for the 15,000 dmt sale, has prepaid for 65% of the product but elected to delay shipment of this product until Q1 2020.

Development – Sal de Vida

- ◆ Simplified Sal de Vida flowsheet developed in-house that greatly reduces technical complexity and risk.
- ◆ Construction of the 15 Ha of demonstration evaporation ponds continues with lining and filling of the ponds underway.
- ◆ The assembly and installation of the onsite, upgraded pilot plant commenced.
- ◆ Camp upgrade with expanded capacity to cater for pilot pond and plant operations nearly completed.
- ◆ Two-year corporate social responsibility program underway.

Corporate

- ◆ Alita senior secured debt facility of US\$32.5 million was repaid in full to Galaxy.
- ◆ As at 31 December 2019, Galaxy was debt free with cash and financial assets of US\$143.2 million.

SUSTAINABILITY

Galaxy is committed to undertaking operations in a transparent, ethical and responsible manner. Galaxy has commenced alignment of its environmental, social and governance practices with international frameworks. Development of the first annual Sustainability Report is underway and scheduled for release in Q2 2020.

Safety Performance

At Mt Cattlin, the Total Recordable Injury Frequency rate for the rolling 12 months ended 31 December 2019 was 14.4, a 16% decrease from the previous quarter. Operations have continued without any Lost Time Injuries since operations resumed in early 2017. Operations at Sal de Vida were also Lost Time Injury free in the quarter.

Environment

At Mt Cattlin, disposal of tailings in-pit continued, providing significant operational cost savings and better environmental outcomes. Dust emissions were also reduced with the completion of the capping of the existing tailings dump surface.

Community

Galaxy is committed to regularly engaging with community stakeholders to provide positive, lasting benefits through employment opportunities and health and educational initiatives.

In Argentina, Galaxy has agreed with the Government of Catamarca to undertake a two-year corporate social responsibility program to support the surrounding communities to the Sal de Vida project. The Company has committed to three projects, including the expansion of two school buildings and the establishment of a first aid facility, all of which are underway.

Galaxy opened a new community relations office in Antofagasta de la Sierra to facilitate communications with local stakeholders. Other community initiatives included training in both healthcare and resume writing for future employment opportunities. Lithium seminars were also held for the mining engineering students at the University of Catamarca with a site visit planned shortly.

In Ravensthorpe, Galaxy hosted an open day for 350 community members called "Afternoon with Galaxy." The Company also relocated and upgraded the Ravensthorpe Community Gym.

PRODUCTION & OPERATIONS

Mt Cattlin

Table 1: Production & Sales Statistics

	Units	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Full year 2019
Mining						
Total material mined	bcm	1,168,120	1,178,925	1,186,040	1,092,259	4,625,344
Ore mined	wmt	437,932	379,187	467,594	505,336	1,790,049
Grade of ore mined	% Li ₂ O	1.03	1.39	1.19	1.34	1.24
Processing and Sales						
Ore processed	wmt	409,849	426,846	454,526	404,148	1,695,369
Grade of ore processed	% Li ₂ O	1.15	1.40	1.18	1.20	1.23
Mass yield	%	10.5	13.5	11.2	10.9	11.5
Recovery	%	51	58	57	54	55
Concentrate produced	dmt	41,874	56,460	50,014	43,222	191,569
Grade of concentrate produced	% Li ₂ O	5.7	6.0	6.0	6.0	6.0
Concentrate sold	dmt	15,192	29,439	58,278	29,778	132,687
Grade of concentrate sold	% Li ₂ O	5.6	5.9	6.0	6.0	6.0
Production Costs						
Cash cost per tonne produced	US\$/t FOB	453	337	385	406	391

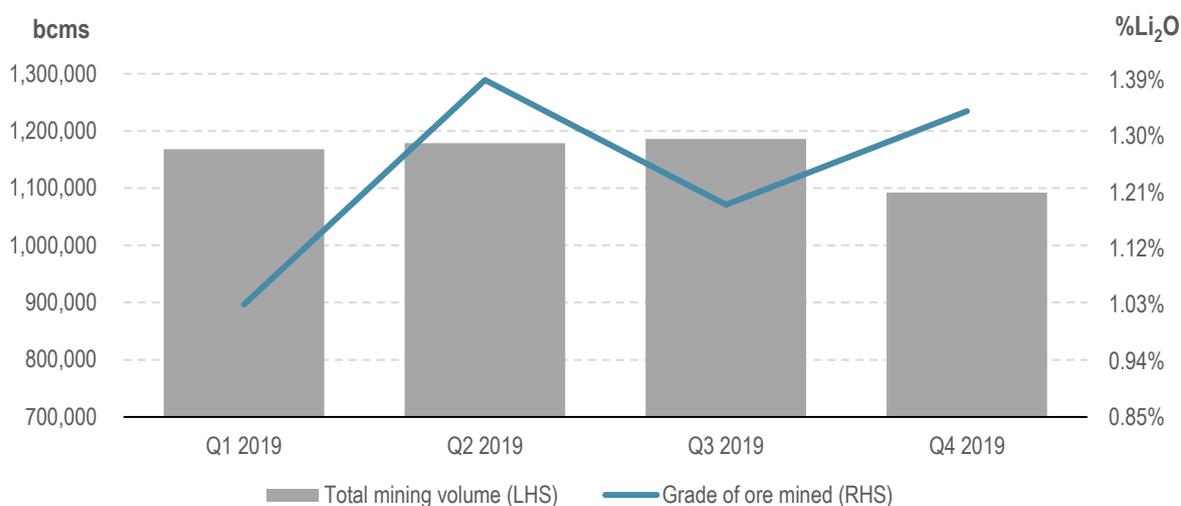
Mining

As previously advised, Galaxy is reducing mining and production rates at Mt Cattlin in 2020 to conserve mineral resources until market conditions improve. These initiatives commenced in mid-December with the mine and plant closing at the end of the contract term of the mining contractor. During January, a front-end optical ore sorter circuit will be installed and commissioned and mining and processing operations are planned to resume progressively from late-February to mid-March.

Galaxy continued to optimise mining operations with shorter haul distances, greater bench sizes and improved blasting practices all contributing to improved mining efficiency. Ore mined for the quarter increased 8% qoq as a function of material mined from the 2SE pit being predominately ore, favourably impacting the strip ratio.

The average grade of ore mined was 1.34% Li₂O for the quarter, which was higher than guidance provided of 1.15% Li₂O. This was due to lower mining dilution achieved in operations, compared to that assumed in the reserve model, and the targeting of higher grade zones for mining in December to build ROM stocks prior to the planned cessation of operations.

Figure 1: Mining Volumes & Grade of Ore Mined



Processing

Q4 2019 concluded a record-breaking year of Mt Cattlin production. Consistent operational execution was demonstrated through stable operations at nameplate capacity achieving the required final product specification reliably and cost effectively.

Mt Cattlin achieved lithium concentrate production volume of 43,222 dmt for the quarter, at the upper end of guidance of 35,000 – 45,000. Galaxy delivered a record full-year of lithium concentrate production of 191,569 dmt. This was also at the upper end of guidance of 183,000 – 193,000 dmt and a 22% increase year-on-year (“yoy”) despite production ceasing in mid-December.

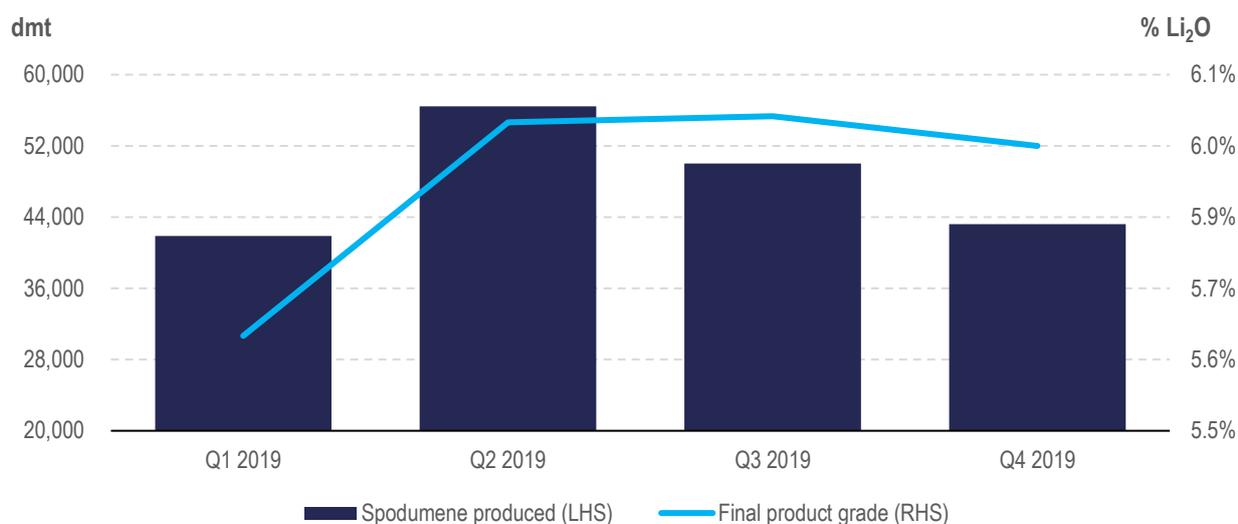
404,148 wet metric tonnes (“wmt”) of ore was processed during the quarter with an average head grade of 1.2% Li₂O. Plant throughput was lower than Q3 2019 due to the planned site closure over the Christmas period.

Reliable delivery of a 6.0% Li₂O final product grade was maintained in Q4 2019. Plant recovery was 54%, a 6% decrease qoq and below the targeted 60% due to underperformance in the dense medium separation circuit during operational trials. These trials were curtailed and plant performance and recovery returned to normal promptly.

Minor optimisation works on the final product optical sorter had a significant impact on the performance of the equipment. Utilisation of the sorter increased to 85% and the highest level of impurity rejection to date was achieved.

Further, pilot test work of the front-end optical ore sorting units was completed during Q4 2019, demonstrating over 70% rejection of basalt from the feed. Engineering and procurement of equipment was completed during the quarter and installation of these units will be completed in February. Following a commissioning phase, the ore sorters are expected to be operational by the end of Q1 2020 in order to allow for the treatment of contaminated ore stockpiles within the new operational plan outlined below.

Figure 2: Production Volumes & Grade of Final Product



Sales

During Q4 2019, 29,778 dmt of lithium concentrate was sold, just below guidance (30,000 – 45,000 dmt). Of the sales, 14,778 dmt was shipped. For the remaining 15,000 dmt the customer prepaid for 65% of the product but elected to delay shipment until Q1 2020. The 35% of the purchase price outstanding will be paid by the customer on shipment.

Financial Performance

The FOB unit cash cost of lithium concentrate produced was US\$406 / dmt in Q4 2019. The average cash cost per tonne produced was US\$391 / dmt for 2019, reinforcing Mt Cattlin's market position as a low-cost producer of spodumene.

The small qoq increase in unit operating costs was predominantly as a result of a lower production volume due to the mid-December cessation of operations and lower processing efficiency resulting from reduced recovery.

Cost reduction continues to be a major focus at Mt Cattlin. As part of Galaxy's review of all key contracts, the mining contract has been restructured into three separate contracts in order to unlock several cost efficiencies. Other service contracts have also been renegotiated yielding savings.

Outlook and Guidance

During the quarter, Galaxy refined its 2020 strategy at Mt Cattlin to optimise operations in response to the market conditions in the lithium sector. The strategic drivers are to prioritise value over volume, generate positive free cash flow, preserve resource life and to maintain balance sheet capacity for advancement of the Company's development portfolio.

The expected outcome for 2020 is that mining operations will be scaled back by approximately 60%. After a competitive tender the new mining contracts have been issued and contractors are now mobilising to site. Drill and blast is scheduled to commence in February, with mining operations to re-commence in March. Crushing and processing operations are also expected to commence in February.

Stockpiled contaminated ore will be co-treated through the process plant, through the implementation of the front-end optical sorters. Mining costs associated with the contaminated ore stockpile have already been expensed, further supporting planned unit operating costs. Approximately 40% of throughput is expected to be sourced from the contaminated ore stockpile in 2020.

Targeted lithium concentrate production volume for Q1 2020 is expected to be between 14,000 – 20,000 dmt following the restart of operations.

The key operating parameters of the updated mine and processing plan for 2020 are detailed in Table 2.

Table 2: Mt Cattlin Forecasted Production Metrics for 2020

	Units	Operating output
Mining		
Total material mined	bcm	1,600,000 – 1,800,000
Strip ratio	bcm	5.2
Processing		
Ore processed	wmt	900,000 – 1,000,000
Grade of ore processed	% Li ₂ O	1.1 – 1.2
Recovery	%	58 – 62
Concentrate produced	dmt	90,000 – 105,000
Grade of concentrate produced	% Li ₂ O	6.0

Forecasted production volumes for 2020 plus existing product stockpiles of approximately 65,000 dmt are sufficient to meet Galaxy's contracted obligations to existing customers in 2020, as well as indicated demand from other potential new customers. Galaxy has established strong relationships with reliable customers that continue to underpin sales volumes in 2020. Galaxy has also sought to expand and diversify its customer mix and is presently in discussions with new customers on establishing spodumene concentrate supply in 2020.

Due to Chinese New Year at the end of January 2020, sales and shipping arrangements for Q1 will be finalised with customers later in the quarter. It is also important to note that shipment volumes are currently dictated by the pace of our customers destocking of their own existing inventory.

The 2020 mining and operational plan retains the flexibility to promptly ramp up production in response to market improvements or as required by Galaxy's customers.

PROJECT DEVELOPMENT

SAL DE VIDA

As outlined in the Corporate Strategy and Project Update released in November, Galaxy is advancing project development at Sal de Vida as a priority. Galaxy's strong financial position allows it to be able to substantially fund Sal de Vida stage 1 internally.

A simplified and de-risked execution strategy was defined during the quarter, breaking execution into 2-3 separate stages. This development approach will allow for the staging of capital expenditure, reduced development risk and simplification of construction and logistical management. Galaxy is targeting a final investment decision in early H2 2020 based upon capital and operating cost estimates in the lowest respective quartiles. The product marketing strategy is based on the initial commercialisation of primary lithium carbonate to customers which have existing carbonate purification facilities in order to accelerate earnings realisation.

Optimised flowsheet

Technical process development advanced during the quarter with the completion of hydrometallurgical test work. The outcome of this was the selection of an in-house developed and optimised flowsheet. The original base case flowsheet was greatly simplified with the removal of three process steps from the overall flowsheet and the de-coupling of onsite processing of primary lithium carbonate and purification processing. Completed Independent test work comprehensively validated the ability of the brine to produce battery grade lithium carbonate.

Advantages of the optimised flowsheet includes improved recovery, lower capital and operating costs and improved consistency of final product quality due to the following factors:

- ◆ **Simplified process, with multiple steps removed**
 - Removal of potash as a by-product, allowing final brine concentration to be reduced to 1.2% Li (from 2.1%)
 - Pond sizing reduced and evaporation cycle time greatly accelerated
 - Overall lithium recovery improved due to fewer process steps and lower losses across a smaller pond area

- ◆ **Technical complexity of final battery grade step at high altitudes eliminated**
 - Flowsheet decoupled between onsite operation and offsite purification
 - The upgrade to battery grade will be undertaken at a separate offsite facility
- ◆ **Reduction of brine volume treated and lime reagent required**
 - Liming to occur after evaporation ponds (previously took place before)
- ◆ **Controlled first carbonation allows impurity removal without major lithium losses**

Site Works

The assembly and installation of the onsite pilot plant module upgrades occurred in Q4 2019 and final services installation is expected to be completed in Q1 2020. Commissioning of the pilot plant is expected to commence in Q1 2020 with first production of primary lithium carbonate thereafter. Piloting represents the next stage of process scale up and will be used for refinement of key operating assumptions and the commencement of product qualification with prospective offtakers. Pilot scale purification using the primary carbonate produced onsite will be completed at an offsite laboratory.

Construction of the 15 Ha of demonstration evaporation ponds continues with lining and filling of the ponds now underway as seen in Figure 1. Engineering for the pumping and piping of brine to the pilot ponds has been finalised and additional construction contractors are scheduled to mobilise to site in the current quarter.

The camp upgrade and expansion to a capacity of over 100 workers neared completion towards the end of the quarter allowing for the mobilisation of construction contractors to site.

Engineering studies related to logistics and energy studies progressed as planned throughout the quarter.



Figure 1: Lining and filling of demonstration ponds at Sal de Vida

JAMES BAY

Development at the James Bay hard rock lithium deposit in Quebec Canada aims to define and optimise an upstream mine and concentrator operation with an integrated downstream conversion facility. Work continued as planned during the quarter on both upstream and downstream operations of the project.

Value engineering work on the upstream operations of the project is underway with the objective to identify capital and operating cost reductions. In parallel, a site investigation program commenced to collect key geotechnical information that will support both the value engineering exercise and the detailed engineering phase. The detailed geotechnical program will commence in the current quarter to facilitate a more detailed level of project engineering that will assist in optimising the footprint and reducing civil and earthworks costs.

Phase 2 of downstream test work for a conversion facility progressed as planned. The pyrometallurgy and purification work was completed, demonstrating highly encouraging results regarding lithium recovery through this part of the flowsheet. The work program regarding the hydrometallurgy portion of the flowsheet was designed and prepared to initiate a subsequent testwork program.

Permitting related works, including Impact and Benefit Agreement negotiations and Environmental and Social Impact Assessment clarification continued throughout the quarter.

EXPLORATION

Mt Cattlin

Exploration at Mt Cattlin was limited to high resolution airborne electromagnetic survey over parts of tenements E74/400, E74/401 and E74/589. The former two are located immediately north of the Mt Cattlin mining lease, the later SW of the lease and west of Ravensthorpe. Once results are received these will be integrated into ongoing regional target generation.

Sal de Vida

No exploration work occurred at Sal de Vida throughout the quarter.

James Bay

No exploration work occurred at James Bay throughout the quarter.

CORPORATE

Alita Senior Debt Facility Repaid by Administrators

The Alita Resources Limited outstanding senior secured loan facility ("**Facility**") of US\$31.1 million acquired by Galaxy in August 2019 was repaid in full during the quarter. Funds received were used to repay Galaxy's corporate debt facility used to acquire the Facility, leaving the Company debt free as at 31 December 2019.

Following acquisition of the Facility, extensive due diligence on the Alita assets and liabilities, including the Bald Hill mine was undertaken. Galaxy proposed a Deed of Company Arrangements ("**DOCA**") to the administrators of Alita, but a competing third-party DOCA proposal was preferred by the administrators. Galaxy was not prepared to amend the offer terms included in its proposed DOCA and as a result, the administrators repaid the Facility in full.

FINANCIAL

Cash and Debt

As at 31 December 2019, Galaxy was debt free with cash and financial assets of US\$143.2 million and 65,000 dmt lithium concentrate in inventory.

Non Cash Impairment

In preparation of the 31 December 2019 financial statements, a review of the inventory on hand and capitalised mine development costs at Mt Cattlin is being undertaken and will be completed prior to the finalisation of the year end financials. Based on the current information, it is anticipated that the review will result in a non-cash impairment in the range of US\$50-80 million. This is in addition to the non-cash impairment already included in the 30 June 2019 half year financial statements. When finalised and reviewed by auditors, any additional adjustment will be included in the 31 December 2019 financial statements which are scheduled for release in February 2020. Any adjustment arising from an impairment will be a non-cash item and would not have any impact on cash-flow, operations or bank covenants.

INDUSTRY AND MARKET UPDATE

A surplus of lithium product production, increasing inventory levels and weaker than anticipated demand from the China new energy vehicle (“NEV”) and US electric vehicle (“EV”) sectors resulted in declining market conditions throughout H2 2019. Volatile macroeconomic factors, including the US / China trade dispute, declining global growth and restrictive credit conditions in China also impacted the overall economic outlook and short-term sentiment in the sector.

Despite the underperformance of the sector in 2019, the outlook for 2020 remains positive and that for the mid-term through to 2025 continues to be very robust. Pleasingly, the European EV sector emerged as the shining light in 2019, with strong growth expected to continue in 2020. The Chinese NEV sector is also expected to stabilise and return to growth in 2020.

Demand

The automotive industry of China retracted in 2019 with overall vehicle production and sales declining by 7.5% and 8.5% yoy, respectively. The NEV sector was disturbed by the reduction in NEV subsidies, as well as heavy discounting of internal combustion engine (“ICE”) vehicle inventory that no longer complies with the new China VI emission standards.

The China Association of Automobile Manufacturers reported NEV production and sales of c.353,000 (29% decline yoy) and c.332,000, (36% decline yoy), respectively for Q4 2019. Total NEV production and sales volumes for the full year were c.1.2 million, representing declines of 2.3% and 4.0% yoy respectively. Among NEVs, battery electric vehicle (“BEV”) production of 1.02 million units reflected 3.4% growth yoy, indicative of the continued consumer preference for full battery electric vehicles, as opposed to hybrid plug-in electric vehicles.

GGII reported total battery capacity installed in registered NEVs of 62.4GWh in 2019, representing 9% growth yoy. With total NEV sales of c.1.2 million vehicles, this implied an average battery capacity per vehicle of 51.8KWh, a 14% increase yoy.

Subsequent to quarter end, China’s Minister for Industry and Information Technology (“MIIT”) announced that the country does not plan to cut subsidies for NEVs again in July 2020. MIIT also recently issued an updated New Energy Vehicle Industry Development Plan (2021-2035), reaffirming China’s desire to reach a 25% penetration rate of NEVs by the year 2025.

The US EV sector declined in 2019. InsideEVs reported total BEVs and plug-in electric vehicle (“PHEV”) sales of 243,356 (3% increase yoy) and 86,173 (31% decline yoy), respectively. Total EV sales reported for 2019 was c.329,000 vehicles, representing a 9% decline yoy.

Conversely, healthy EV growth was experienced in Europe throughout 2019. Clean Technica reported 2019 EV sales of c.579,000 vehicles, representing 43% growth yoy. 2020 is set to represent a breakout year in global NEV model releases with multiple new models set for introduction from many of the world’s traditional auto-manufacturers.

Supply

A surplus of production and rising inventory stockpiles of lithium raw materials were key supply side challenges in 2019 and a key driver of the decline in lithium prices. The challenge posed by excess stockpiles is expected to persist throughout the early part of 2020.

Pressure associated with low prices continues to drive supply side rationalisation, with further curtailments of production, expansion and ramp up timelines throughout H2 2019.

Despite the addition of new spodumene conversion capacity throughout 2019, weak pricing and consumption, combined with tighter financial liquidity led to low utilisation rates in the sector. For some marginal producers declining prices fell below their operating cost levels, leading to production curtailments. Lower cost brine production from South America and China, albeit of lower quality, gained a larger market share and created an overall drag on battery grade lithium carbonate and hydroxide pricing.

Investment in upstream projects was stifled in H2 2019, with the current pricing environment insufficient to incentivise further expenditure. In contrast, the level of downstream investment in lithium-ion battery manufacturing and OEM production lines continued to accelerate. This mismatch in upstream investment should accelerate the reversal of the market back to deficit given the lead times associated with upstream project construction and ramp-up are likely to mean incremental supply will be insufficient to meet demand growth in the medium term.

Pricing

Domestic lithium chemical prices in China fell in Q4 2019 over the previous quarter. According to Asian Metal, domestic battery grade lithium carbonate was reported at RMB49,500 per tonne at the end of December 2019, with lithium hydroxide reported at RMB54,000 per tonne for the same period. These price levels represented a quarterly decline of 16% and 19% respectively for lithium carbonate and lithium hydroxide.

Prices are expected to remain subdued throughout Q1 2020. Some suppliers are likely to seek to monetise excess inventory to continue producing cash flow in order to satisfy their financial circumstances. Demand, whilst tempered in the early part of the quarter, is expected to recover after Chinese New Year.

North Asia pricing for lithium carbonate and lithium hydroxide reported a slight decline, with Benchmark Minerals Intelligence reporting prices at US\$7.9K and US\$10K per tonne at the close of Q4 2019, representing a decline of 11% and 12% respectively when compared to the end of Q3 2019.

ENDS

This release was authorised by Mr. Simon Hay, Chief Executive Officer of Galaxy Resources Limited.

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About Galaxy (ASX: GXY)

Galaxy Resources Limited is an international company with lithium production facilities, hard rock mines and brine assets in Australia, Canada and Argentina. It wholly owns and operates the Mt Cattlin mine in Ravensthorpe Western Australia, which is currently producing spodumene and tantalum concentrate.

Galaxy is advancing plans to develop the Sal de Vida lithium and potash brine project in Argentina situated in the lithium triangle (where Chile, Argentina and Bolivia meet), which is currently the source of more than 40% of global lithium production. Sal de Vida has excellent potential as a low-cost brine-based lithium carbonate production facility.

Galaxy's diversified project portfolio also consists of the wholly owned James Bay lithium pegmatite project in Quebec, Canada. James Bay will provide additional expansion capacity to capitalize on future lithium demand growth.

Lithium compounds are used in the manufacture of ceramics, glass, pharmaceuticals and are an essential cathode material for long life lithium-ion batteries used in hybrid and electric vehicles, as well as mass energy storage systems and consumer electronics. Galaxy is bullish about the global lithium demand outlook and is aiming to become a major producer of lithium products.

Caution Regarding Forward Looking Information

This document contains forward looking statements concerning Galaxy. Statements concerning mining reserves and resources may also be deemed to be forward looking statements in that they involve estimates based on specific assumptions.

Forward-looking statements are not statements of historical fact and actual events and results may differ materially from those described in the forward-looking statements as a result of a variety of risks, uncertainties and other factors. Forward-looking statements are inherently subject to business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking information provided by the Company, or on behalf of the Company. Such factors include, among other things, risks relating to additional funding requirements, metal prices, exploration, development and operating risks, competition, production risks, regulatory restrictions, including environmental regulation and liability and potential title disputes.

Forward looking statements in this document are based on Galaxy's beliefs, opinions and estimates of Galaxy as of the dates the forward-looking statements are made and no obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments. There can be no assurance that Galaxy's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that Galaxy will be able to confirm the presence of additional mineral deposits, that any mineralization will prove to be economic or that a mine will successfully be developed on any of Galaxy's mineral properties. Circumstances or management's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward-looking statements. Data and amounts shown in this document relating to capital costs, operating costs, potential or estimated cashflow and project timelines are internally generated best estimates only. All such information and data is currently under review as part of Galaxy's ongoing operational, development and feasibility studies. Accordingly, Galaxy makes no representation as to the accuracy and/or completeness of the figures or data included in the document.

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