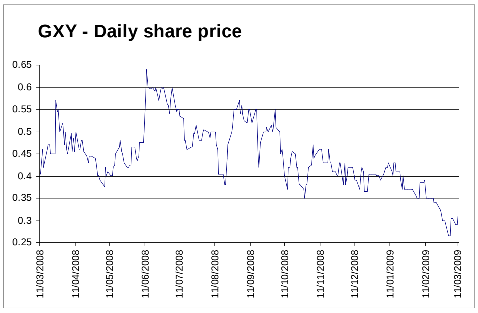
Participant of the ASX Group
AFSL 247100 ABN 95 092 989 083

Galaxy Resources Ltd (GXY)

Recommendation: Long Term Buy ($0.31)

11 March 2009



Investment Data	GXY
Share Price	$0.31
Fully Paid Ord Shares (m)	60.0
Options (m)	8.7
Fully Diluted (m)	68.7
Current Market Cap ($'m)	18.6
Enterprise Value ($'m) (diluted)	17.3
Net Cash (Dec 2008)($'m)	1.3
52 week Low/High (cents)	28/67.5

Directors & Officers

Craig Readhead	Chairman
Iggy Tan	Managing Director
Robert Wanless	Non Exec Director

Major Shareholders

State One Capital Group	12.1%
Directors	8.0%
Adema Pty Ltd.	7.0%
Pegmont Mines	4.2%

State One Stockbroking Ltd

Level 14, State One House
172 St George's Terrace
Perth WA 6000
Perth Tel: (+61 8) 9288 3388
Sydney Tel: (+61 2) 9024 9105
Email: advice@stateone.com.au
Web: www.stateone.com.au

Analyst
Sam Berridge
Tel: +61 8 9288 3302
Email: sberridge@stateone.com.au

Mount Cattlin Definitive Feasibility Study maps out path to strong returns.

Galaxy Resources has completed its definitive feasibility study (DFS) into the development of the Mt Cattlin lithium deposit. Key findings of the study include a **net present value of A$128m** or $1.20 per share after capital raised. The DFS also points to significant upside once a toll treatment agreement for conversion of lithium concentrate into lithium carbonate is reached. Global support for the electric car market (a forecast key consumer of lithium), remains robust as it continues to receive funding from various stimulus packages in addition to private investment.

Key Investment Points:

- Galaxy intends developing the Mt Cattlin lithium/tantalum mine near Ravensthorpe, in the south of Western Australia.
- Managing director, Iggy Tan, has assembled a very experienced management team with operational and lithium experience.
- The company has a sound business strategy which should see it as a new entrant in the lithium market by late 2010.
- Ongoing advances in lithium battery technology continue to confirm the lithium battery as the optimum means of facilitating electronic car advancement. – See page 2 of this report.

- Key DFS statistics include;
    - NPV of $128m (8% after tax).
    - Processing capacity – 1Mtpa.
    - Stripping ratio 2.4 – low due to shallow cover and 12m thick mineralised seams.
    - Production – 150k tonnes of spodumene concentrate (5%) for 7,500t of contained lithium oxide (Li_2O) &
    - 56,000lbs of contained tantalum (Ta_2O_5) in concentrate.
    - Life of mine cash cost of $41/t versus an in-situ ore value of $71/t.
    - Life of mine revenue of $1.04 billion
    - Capex of $68 million.
    - Mine life of 15 years (deposit still open at depth and along strike).
- Details of the Mt Cattlin Project are continued on page 9 of this report.

- An updated flow sheet for metallurgical processing has been designed to produce a 5% concentrate which will be toll treated to produce battery grade lithium carbonate. No sales of spodumene concentrate into glass or ceramic applications are expected.

Additional upside:

- Negotiations have commenced regarding toll treatment options for initial spodumene concentrate production. This would produce a lithium carbonate product which currently sells for approximately US$6,500/t. Representing significant upside yet to be included in the DFS study.
- **Recent resource expansion drilling** has intersected spodumene-rich pegmatite veins outside the existing resource envelope at depth and along strike. A resource expansion to include these new intersections is expected in March 2009.
- A scoping study into the construction of a lithium carbonate production facility on site at Ravensthorpe is expected to be completed by mid 2009. Results from this study will be then compared with toll treatment options and assessed.
- **Recent investments** into the electric car or lithium battery market include: Warren Buffet – US$ 230million 29th September 2008; US Government US$1 billion 12th Jan 2009; Nissan & NEC – US$1.1 billion 29th December 2008.
- Should falling iron and coal prices lead to increased downward pressure on the value of the Australian dollar, the value of Mt Cattlin operation would increase significantly in Australia dollar terms.

Part A: Lithium Batteries & The Lithium Market

The inaugural **Lithium Conference** held in Chile during January 2009 was the first such gathering of the major lithium suppliers, consumers and future consumers. The event was the result of a growing demand for more transparent information about lithium market. Specifically, the current world supply and the ability of current producers to meet the expected steepened demand that will result from the emergence of the electric car market. This last point is seen as the critical to cementing the lithium battery as the preferred choice for electric car manufacturers. In this regard the conference was attended by representatives of all the major car companies.

The three clear messages to come out of the conference were that;

- The lithium battery is superior to the nickel metal hydride (NiMH) and other alternatives in terms of performance, durability and cost.
- There is adequate lithium in current reserves and resources to meet future world demand.
- Future electric cars are almost certainly going to migrate towards some form of lithium battery due to a number of advantages over NiMH and other alternatives.

However, while there appears little doubt that there are the lithium resources available to meet world demand, the ability of industry to expand production to meet that demand remains under question.

1. The Lithium Chemical Advantage

Lithium is the lightest of all metals with an atomic number of 3 and an atomic weight of 6.9. The soft silver grey metal is highly reactive at room temperature. As such, it never occurs as a pure element but rather in the form of stable minerals or salts. Commercial lithium production comes from two sources;

- Lithium minerals containing lithia (Li_2O), such as spodumene, petalite and lepidolite, are mined from open-cut and underground mines, with the largest producers being Australia, China, Zimbabwe and Canada.
- Lithium-rich brines from salt lakes located in the Andes of Chile and Argentina and in the Himalayas of China.

Scientists have been using lithium as an electrolytic material (in batteries) since first trialled via the lithium alkali battery used in submarines during World War II. Lithium was selected for battery trials due to the superior voltages that can be obtained with a wide variety of anode materials. This is due to the strong affinity of lithium ions for electrons relative to current alternatives. Described another way, this affinity can be thought of as potential energy or voltage.

Standard Reduction Potentials at 25°C

Reduction Half-Reaction		E° (V)
$F_2(g) + 2e^-$	$\longrightarrow 2F^-(aq)$	2.87
$H_2O_2(aq) + 2H^+(aq) + 2e^-$	$\longrightarrow 2H_2O(l)$	1.78
$MnO_4^-(aq) + 8H^+(aq) + 5e^-$	$\longrightarrow Mn^{2+}(aq) + 4H_2O(l)$	1.51
$Cl_2(g) + 2e^-$	$\longrightarrow 2Cl^-(aq)$	1.36
$Cr_2O_7^{2-}(aq) + 14H^+(aq) + 6e^-$	$\longrightarrow 2Cr^{3+}(aq) + 7H_2O(l)$	1.33
$O_2(g) + 4H^+(aq) + 4e^-$	$\longrightarrow 2H_2O(l)$	1.23
$Br_2(l) + 2e^-$	$\longrightarrow 2Br^-(aq)$	1.09
$Ag^+(aq) + e^-$	$\longrightarrow Ag(s)$	0.80
$Fe^{3+}(aq) + e^-$	$\longrightarrow Fe^{2+}(aq)$	0.77
$O_2(g) + 2H^+(aq) + 2e^-$	$\longrightarrow H_2O_2(aq)$	0.70
$I_2(s) + 2e^-$	$\longrightarrow 2I^-(aq)$	0.54
$O_2(g) + 2H_2O(l) + 4e^-$	$\longrightarrow 4OH^-(aq)$	0.40
$Cu^{2+}(aq) + 2e^-$	$\longrightarrow Cu(s)$	0.34
$Sn^{4+}(aq) + 2e^-$	$\longrightarrow Sn^{2+}(aq)$	0.15
$2H^+(aq) + 2e^-$	$\longrightarrow H_2(g)$	0
$Pb^{2+}(aq) + 2e^-$	$\longrightarrow Pb(s)$	−0.13
$Ni^{2+}(aq) + 2e^-$	$\longrightarrow Ni(s)$	−0.26
$Cd^{2+}(aq) + 2e^-$	$\longrightarrow Cd(s)$	−0.40
$Fe^{2+}(aq) + 2e^-$	$\longrightarrow Fe(s)$	−0.45
$Zn^{2+}(aq) + 2e^-$	$\longrightarrow Zn(s)$	−0.76
$2H_2O(l) + 2e^-$	$\longrightarrow H_2(g) + 2OH^-(aq)$	−0.83
$Al^{3+}(aq) + 3e^-$	$\longrightarrow Al(s)$	−1.66
$Mg^{2+}(aq) + 2e^-$	$\longrightarrow Mg(s)$	−2.37
$Na^+(aq) + e^-$	$\longrightarrow Na(s)$	−2.71
$Li^+(aq) + e^-$	$\longrightarrow Li(s)$	−3.04

Li/F_2 ~ 5.9V

Figure 1 – Standard reduction potentials as measured in electron volts. The greater the difference in reaction half potentials, the more power there is available.

Engineering a high potential across the cathode-anode is the first step in producing a more powerful battery. Early lithium batteries encountered problems with rapid de-charging when short circuited, which caused over heating. On going research has largely mitigated this problem via complex silicon, graphite or polymer lattice designs which support battery stability.

1.1. Lithium Battery Out Performance

The high level of potential energy exhibited by lithium batteries as shown in figure 1 is further exemplified in figure 2 (below). Both in terms of power (Watts per kg; W/kg) and energy (Watt hours per kg; Wh/kg) lithium batteries outperform lead-acid, nickel-cadmium and nickel-metal-hydride batteries on a per kilogram basis.

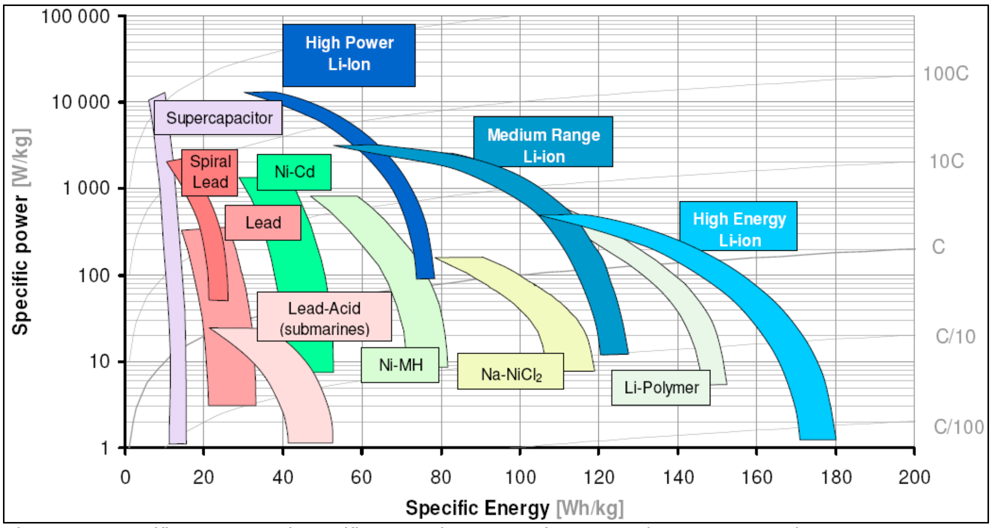


Figure 2 – Specific energy and specific power battery performance. (Source – SAFT)

1.2. Lithium Cost Benefit

Nickel metal hydride (NiMH) batteries are at present the primary alternative to lithium batteries for portable power sources including use in some electric cars and do provide a cost advantage in smaller component applications. However, due to the higher power output of lithium batteries, on a per kilowatt hour (kWh) basis lithium batteries are currently cheaper when scaled up to vehicle size and are forecast to drop further in price as volume of production increases relative to NiMH batteries (see figure 4).

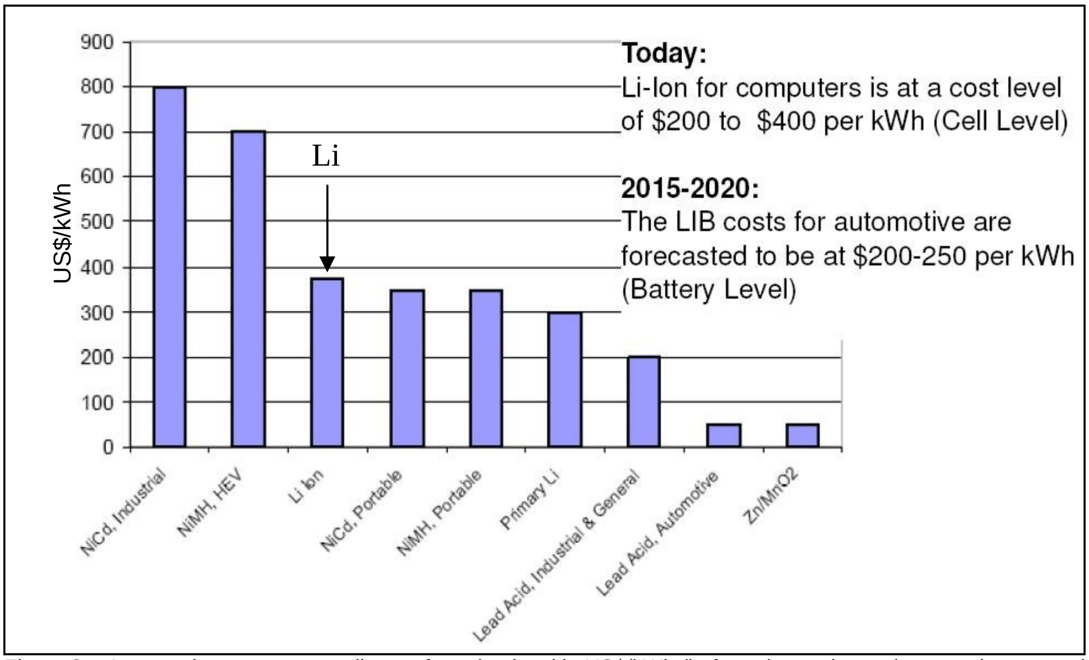


Figure 3 – Average battery cost at cell manufacturing level in US$/kWh (before electronics and connections are added to form the battery). LIB costs = Lithium Battery costs. (Source – Advanced Automotive Batteries).

Another important advance has been the development of lithium polymer batteries. In this design, the lithium-salt electrolyte is not held in an organic solvent as in the lithium-ion design, but in a solid polymer composite such as polyethylene oxide or polyacrylonitrile. Because of denser packaging without intercell spacing between cylindrical cells and the lack of metal casing, the energy density of lithium polymer batteries is over 20% higher than that of a classic lithium-ion battery and approximately three times better than nickel-cadmium and nickel metal hydride batteries.

This point is a contributing factor in the cell cost vs. volume relationship as modelled by the Ford Motor Company. Data recently presented at the inaugural Lithium Conference indicates that lithium battery cell costs should although greater costs savings from economies of scale relative to NiMH batteries.

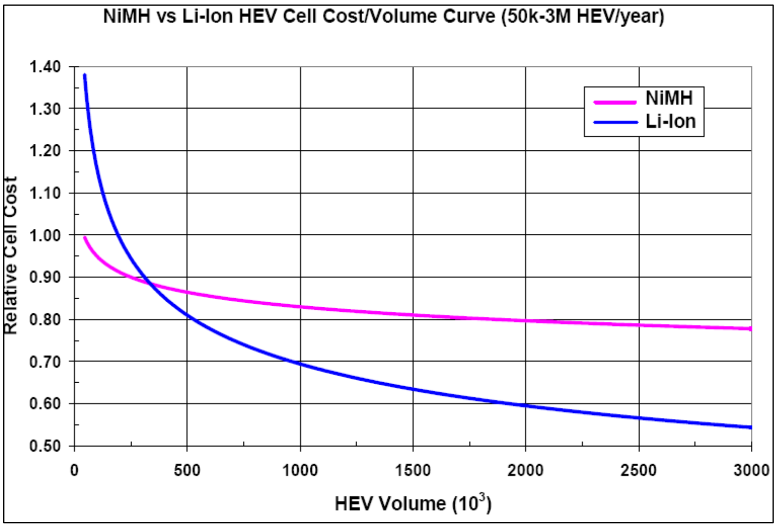


Figure 4: Cost projection of HEV (hybrid electric vehicle) battery cell cost versus volume of production. (**Source – Ford Motor Company 2009**).

2. Lithium Supply and Demand

2.1. Lithium Supply

Lithium is produced from one of two sources;

Mineral production: Lithium rich minerals include; *spodumene*, petalite, lepidolite, amblygonite/montebrasite and eucryptite. The occurrence of these minerals in economically significant concentrations is generally confined to pegmatites, which are course grained, generally quartz rich zones containing the more insoluble fraction of melt components. The world's largest source of mineral production is the Greenbushes Mine in Western Australia. Run by Talison Minerals, Greenbushes accounted for 70% world mineral lithium production in 2008. The pegmatite hosted spodumene of Galaxy's Mt Cattlin deposit is of similar geology to Greenbushes.

Brine production: Lithium production from brines is a highly consolidated industry, with only four significant producers operating in Chile, Argentina, the USA and China. Sociedad Quimica y Minera ("SQM") contributed about a third of the total global lithium carbonate equivalent (LCE) production in 2007.

Over the next few years, brines production is expected to increase with the expansion of current operations and new projects including:

1. Chemetall increasing output from its (Sociedad Chilena de Litio) SCL facility in Chile by about 8,000 tpa LCE.
2. SQM is planning to expand production by an additional 10,000 tpa LCE by the second half of 2008.
3. China's Qinghai CITIC commenced LCE production near Golmud in 2007. Initial production is at the rate of 5,000 tpa, and it is expected that this will increase over time to 20,000 tpa.

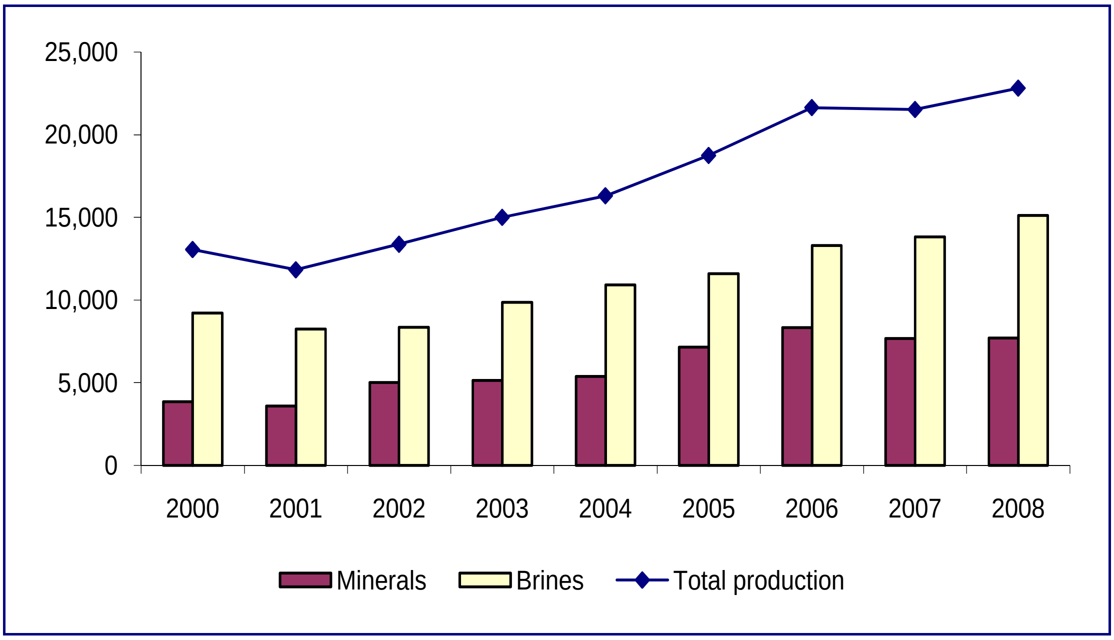


Figure 5: Production of lithium contained in minerals and brines, 2000 – 2008. Source: Roskill Information Services Ltd.

2.1.1. Are Lithium Resources adequate?

Lithium watchers may be aware of an article entitled *The Trouble With Lithium* by William Tahil, Research Director of Meridian International Research. The 22 page article contends that lithium and lithium batteries will not evolve as the primary power source for the emerging electric car market due to a shortage of global lithium supply. Tahil draws parallels with the "peak-oil" phenomenon. This article is directly addressed by R. Keith Evans in a paper entitled *Lithium Resources Are They Adequate?*, published in January of 2009. Basically Evans refutes Tahil's argument in its entirety and is supported by data published by global lithium companies FCM and Chemetall. FCM quotes a figure of 41 million tonnes of lithium carbonate equivalent **(LCE)** in active reserves, enough to meet forecast world demand of 309 thousand tonnes by 2020 for over 100 years. **The issue remains whether production increases can keep up with projected demand rather than an intrinsic scarcity of product**.

Lithium Global Active Reserves

Active Hard Rock Reserves	**Tonnes LCE**
China	2,643,000
Australia	793,000
Zimbabwe	122,000
Canada	735,000
Congo	1,633,000
Brazil	17,000
Total	5,943,000
Active Brine Reserves	
Chile	23,521,000
China	5,286,000
Argentina	4,229,000
US	2,019,000
Total	35,055,000
Total reserves	**40,998,000**
2008 Global consumption of LCE	**98,000**

Source: "Handbook of Lithium Natural Calcium Chloride" Garrett,D. 2004

While there are a number of emerging lithium projects that have been born of the forecast spike in demand, Galaxy Resources is in an envious position, as having the most advanced project in the western world. The project has been found to be financially robust and is awaiting final contract and financing arrangement prior to commencing construction.

Potential Lithium Projects – Status and Location

Country	Company	Project	Brine/Mineral	Reserves (kt Li)	Capacity (t Li_2CO_3)	Phase	Products	Start date
Argentina	Sentient Group	Salar del Rincón	Brine	1,403	…	Evaluation/ Pilot plant	Li_2CO_3	N/A
	Orocobre	Salar de Olaroz	Brine	…	…	Exploration	…	N/A
Australia	Galaxy Resources	Mount Cattlin	Mineral	64.5	7,500	**DFS**	Spodumene (Li_2O) with potential for Li_2CO_3	2010
Bolivia	Comibol	Salar de Uyuni	Brine	5,500	…	Evaluation/ Pilot plant	Li_2CO_3	N/A
	New World Resource	Pastos Grandes	Brine	…	…	Exploration	…	N/A
Canada	Avalon Rare Metals	Big Whopper	Mineral	50.2	80,001	Feasibility	Li_2CO_3 or petalite conc.	N/A
	Pacific Iron Ore	Big Mack	Mineral	3.02	…	Scoping	Petalite conc.	N/A
	Canada Lithium	Thompson Brothers	Mineral	26.02	…	Scoping	Spodumene (Li_2O) conc. / Li_2CO_3	N/A
		Quebec Lithium	Mineral	82.6	…	Feasibility	Spodumene (Li_2O) conc. / Li_2CO_3	N/A
China	Qinghai Salt Lake	Chaerhan	Brine	1,300	10,000	Construction	Li_2Cl, Li_2CO_3, Li	2009
	Sterling Group	DXC	Brine	140	5,000	Feasibility	Li_2CO_3	N/A
Finland	Keliber	Länttä	Mineral	…	13,304	Feasibility	Li_2CO_3	2010
Spain	Solid Resources	Doade Pesqueira	Mineral	…	…	Feasibility	…	N/A
USA	Simbol Mining	…	Brine	…	…	Scoping	Li_2CO_3	N/A
	GlobeStar Mining	Moblan	Mineral	…	…	Scoping	Spodumene (Li_2O) conc.	N/A
	Western Lithium	Kings Mountain	Mineral	36,002	…	Scoping	Li_2OH	N/A
	Canada Lithium	Nevada brines	Brine	…	…	Exploration	…	N/A
Total				**44,571**	**115,805**			

Source: Roskill Information Services Ltd

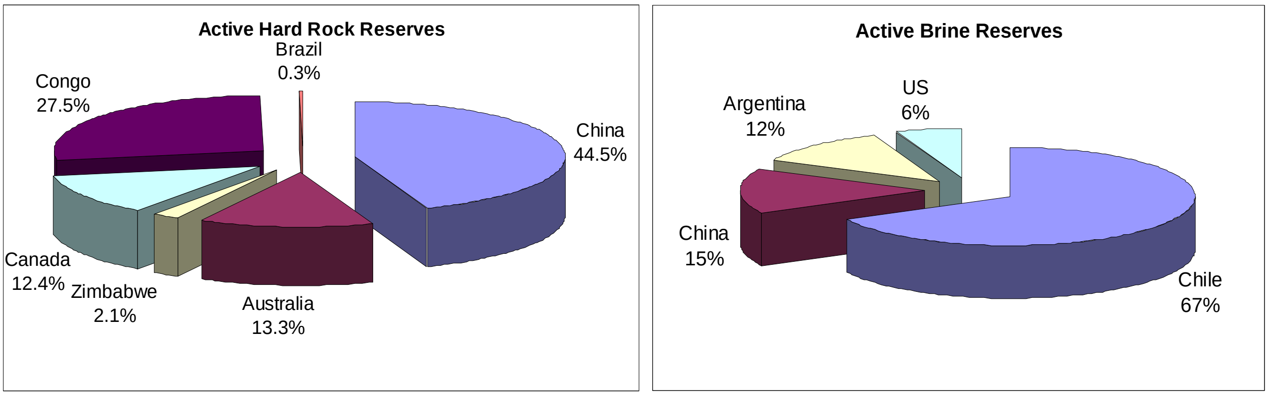


Figure 5: Global location of active hard rock and brine reserves.

2.2. Lithium Demand

Total demand for lithium brines and minerals in 2007 was estimated to be 93,000 tonnes of lithium carbonate equivalent (LCE), continuing a trend of +5% CAGR. The market has seen unprecedented growth since 2004, mainly driven by the primary and secondary lithium battery market which have grown at +20% CAGR respectively since 2004. There has also been significant demand growth in recent years in the glass/ceramics market, particularly from China.

Continuing strong growth is forecast over the short to medium term, mainly driven by demand from the lithium battery market. There is significant market upside if lithium derivative batteries are used in electric and hybrid electric vehicles. There was encouragement on this score at the start of 2008, when the General Motors CEO came out with the statement that the future of the motor car lay with electric engines.

Current and Planned vehicles using Lithium Secondary Batteries

Make	Model	Type	Released/due	Battery type	Battery supplier
AC Propulsion	Ebox	EV	2007	Li-ion	In-house
Tesla	Roadster	EV	2008	Li-ion	In-house
TH!NK	City	EV	2008	Li-ion	Ener1/Delphi
BYD	F3DM	PHEV	2008	Li-ion	In-house
Aptera	Type 2e	EV/PHEV	2009	Li-ion	In-house
Mitsubishi	MiEV	EV	2009	Li-ion	GS Yuasa
Mercedes	S400 Blue	HEV	2009	Li-ion	Continental/Johnson-Controls/Saft
RECC	REVA L-ion	EV	2009	Li-ion	Not known
Hyundai	Elantra	HEV	2009	Li-ion	Compact Power/LG
Saturn	Vue	PHEV	2010	Li-ion	Compact Power/LG A123 Systems
Chevrolet	Volt	PHEV	2010	Li-ion	Compact Power/LG A123 Systems
Bolloré/ Pininfarina	B0	EV	2010	Lithium metal polymer	batScap/Bathium Canada
Fisker	Karma	PHEV	2010	Li-ion	Compact Power/LG A123 Systems
Persu	Persu Hybrid	EV	2010	Li-ion	Not known
Phoenix	SUT/SUV	EV	2010	Li-ion	Altair Nanotechnologies
BYD	F6DM	PHEV	2010	Li-ion	In-house
Nissan	Cube/NuVu	EV	2010	Li-ion	NEC
Volkswagen/ Audi	Golf, UP	EV	2010	Li-ion	Sanyo
BMW	7-Series	HEV	Development	Li-ion	Continental/Johnson-Controls/Saft
BMW	Mini	EV	Development	Li-ion	AC Propulsion
Ford	Escape	PHEV	Development	Li-ion	Johnson Controls/Saft or Magna International
Honda	Civic	HEV/PHEV	Development	Li-ion	GS Yuasa
Subaru	R1e/G4e	EV	Development	Li-ion	Fuji Heavy Industries
Toyota	Prius	HEV/PHEV	Development	Li-ion	Matsushita
Volvo	C30	PHEV	Concept	Li-ion	Not known

Source: Trade press; automotive and battery producers, after Roskill Information Services Ltd.

On going reports from various sources continue to reaffirm industry support of lithium ion batteries.

The outlook for the non-chemical sector of the industry is also positive despite the short term slowing of the Chinese glass/ceramics market. Growth in other regions for lithium minerals continues to be positive, particularly in metal alloys for high temperature variance applications (figure 6).

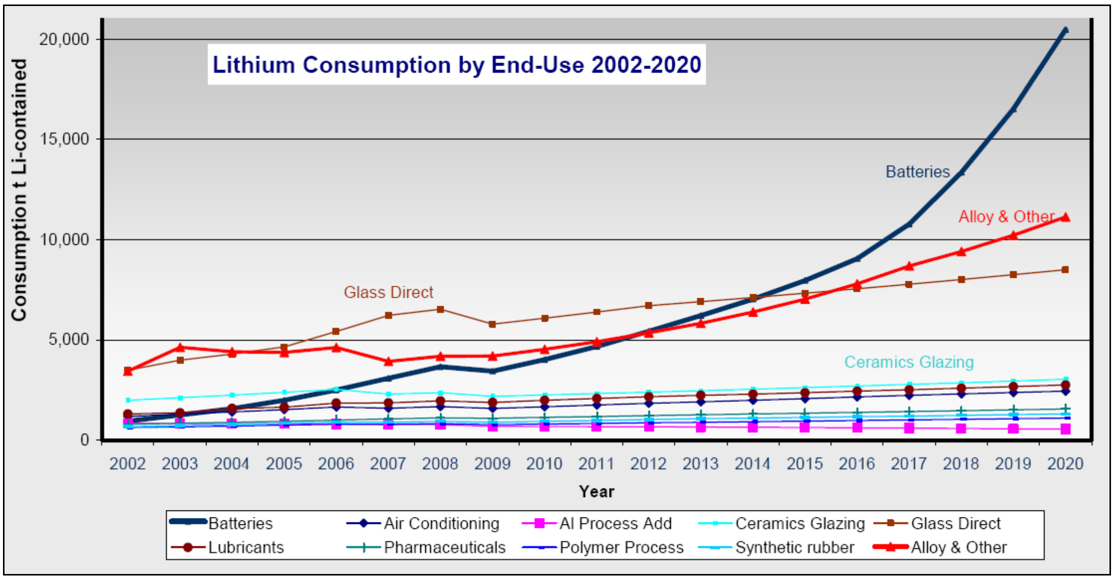


Figure 6: Forecast lithium demand by application. (Source TRU Group, 2009).

While current latent capacity and forecast additional supply from developing projects is projected to meet increased lithium demand in the medium term, the capacity for supply to keep up with demand is finely balanced (existing total supply vs. chemical grade demand, figure 7). As has been observed in other commodity classes, such as copper, project development follows an inherently uncertain time frame. Should projects suffer financing, logistical or regulatory hurdles, a supply squeeze is likely to be brought forward which will result in increased upward pressure on lithium prices.

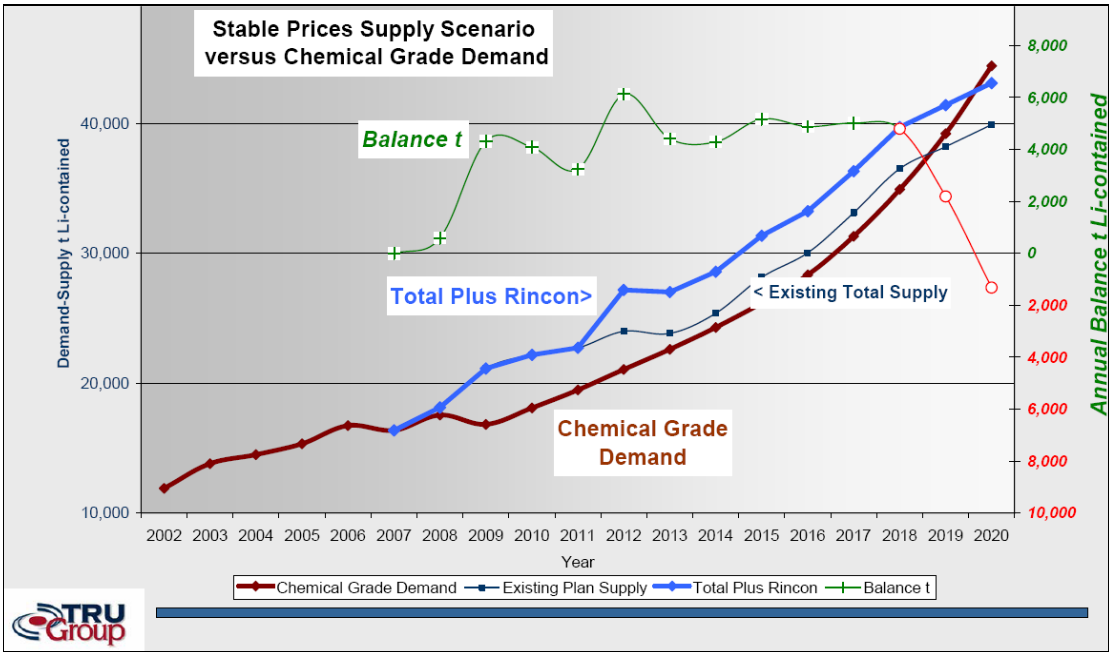


Figure 7: Total lithium forecast supply versus demand. (Source – TRU Group).

Japanese and other Asian battery manufacturers and end users have already publicly stated concerns regarding security of supply of lithium and lithium carbonate. These concerns have been heightened in recent times by disruptions in the Congo, a key exporter of spodumene. Should China or other entities start to stock pile product or the take up of electric cars exceed expectations, the finely balanced existing supply / demand dynamic will be thrown out of balance, bringing the forecast supply squeeze forward from the current 2018 forecast.

Part B: GALAXY RESOURCES – MT CATTLIN LITHIUM PROJECT

Galaxy recently released the details of its DFS into the development of the Mt Cattlin Lithium Project. Changes from the previously released PFS included;

- A cut down metallurgical flow sheet, designed to optimise lithium production and reduce OPEX.
- OPEX costs of $41/t versus a projected revenue of $71/t giving a forecast **operating margin of 42%.**
- Increase in capital costs to $68 million (from $50 million)

1. Development - Low Risk Strategy

Galaxy Resources has opted for a low risk development strategy for Mt Cattlin, modelling local concentrate production before pursuing a toll treatment option via lithium processing facilities available in China – **the contribution of which is yet to be included in the project's net present value**. This strategy reduces the financial and technical risk of the project and allows the spodumene concentrate circuit to be optimised and cash flow generated prior to value adding via a lithium carbonate facility.

Phased Start Up – First Stage (Toll Treatment) – GXY operations in yellow.

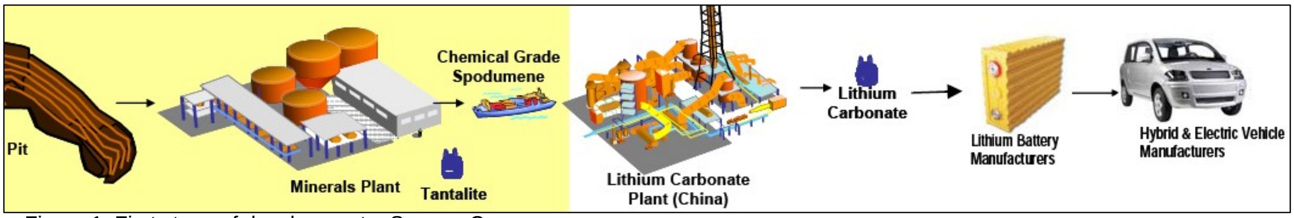


Figure 1: First stage of development – Source: Company

Phased Start Up – Second Stage (Lithium Carbonate Plant Ravensthorpe)

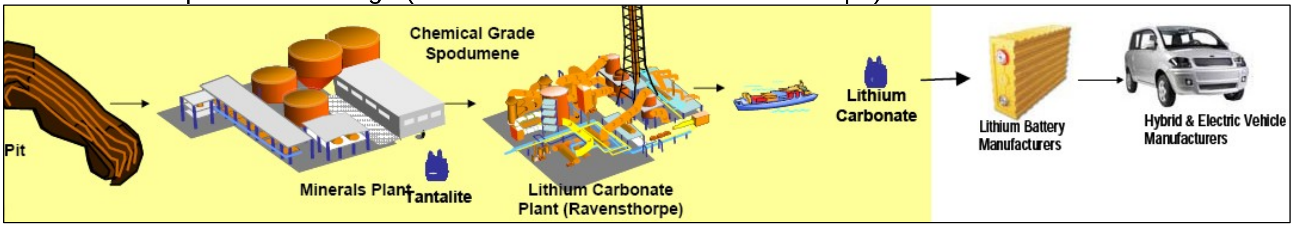


Figure 2: Second stage of development – Source: Company

This strategy is seen as prudent in light of the current global financial situation.

2. Marketing and Business Development

Compared with base and precious metals, the lithium market is comparatively opaque and heavily consolidated on the buy side. End users such as battery or vehicle manufacturers often outsource procurement to large trading houses. To this effect, effective marketing of lithium carbonate product is essential in ensuring an optimum price is received.

Galaxy Resources made a big step forward in this department in early 2009 when it announced the appointment of Mr Anand Sheth as General Manager of Marketing and Business Development. Mr Sheth has been the Lithium and Tantalum Marketing Manager at Talison Minerals Pty Ltd (ex Sons of Gwalia) for the last 10 years handling the sale of lithium concentrate. Mr Sheth will be responsible for establishing the long term strategic partnerships and off take agreements required as an emerging lithium and tantalum producer. Talisman currently supplies approximately 50% of global demand for lithium minerals.

3. Reserves and Resources

The leases containing the Mt Cattlin ore body are immediately to the northwest of Ravensthorpe, some 450 km southeast of Perth. Galaxy holds an option to purchase all of the land on which the ore-body sits, apart from a small portion which is Vacant Crown Land (was previously freehold which means there are no native title issues). Galaxy is expected to exercise the purchase option upon commencing construction of the lithium concentrate facility, in late 2009. The majority of the proposed mining area falls within a granted

Mining Lease in respect of the key parts of the project. Although a Mining Lease has been granted, the project still needs a satisfactory Notice of Intent to mine now that the DFS has returned a positive outcome.

The ore-body is a flat-lying pegmatite sheet averaging 10 to 12 metres in thickness, with a maximum depth of 80 metres. The life-of-mine waste to ore ratio is 2.4:1. The ore minerals are spodumene (containing lithium), tantalite and some tin. Waste minerals are quartz, feldspar, blue metal and mica, from which we have assumed no revenues but may be marketable for proximal civil projects.

Reserves and Resources cont.

The Current Global Ore Resource is calculated as:

Category	Tonnes	Ta_20_5 ppm	Li_2O %	Spodumene %
Measured	2,028,715	182	0.62	9.19
Indicated	10,141,524	114	0.70	10.23
Inferred	12,602,066	113	0.43	6.32
Total	24,772,306	119	0.55	8.15

High Grade Cut Ore Resource is calculated as:

Within the global resource, a higher grade resource of 1.81 million tonnes of spodumene and 3.80 million lbs Ta_20_5 has been delineated using a *0.4% Li_2O cut-off:*

Category	Tonnes	Ta_20_5 ppm	Li_2O %	Spodumene %
Measured	1,090,066	177	1.07	15.67
Indicated	6,417,133	125	1.02	15.00
Inferred	4,797,911	140	0.96	14.12
Total	12,305,110	135	1.00	14.72

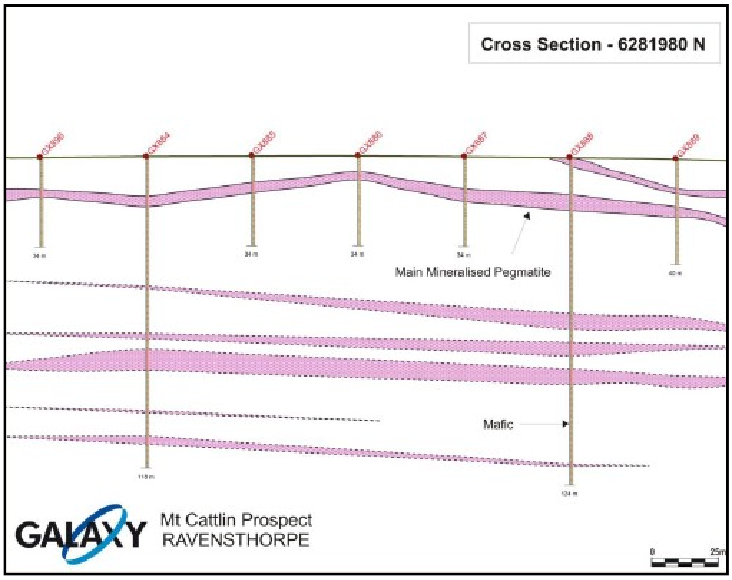


Figure 3: Deep drilling at Mt Cattlin has identified new lithium bearing pegmatite veins up to 14m thick below existing resource. – Source: Company.

4. Ongoing resource expansion

Recent RC drilling has expanded the resource potential via thick pegmatite intersections outside the resource envelope along strike and at depth. These intersections are a significant addition to the geological model as it now appears the surface mineralisation is part of a stacked pegmatite array, rather than a discrete mineral occurrence. As the balance of assay results are received, they will be included in a resource expansion that is expected to be announced in H1 2009.

Recently announced assay values outside the existing resource envelope include:

Hole ID	From	Interval	Li_2O	Spodumene
GX836	19	11	1.08%	15.9%
GX849	70	14	1.70%	25.0%
GX850	53	10	1.77%	26.0%

*measured resource grade is 1.00% Li_2O

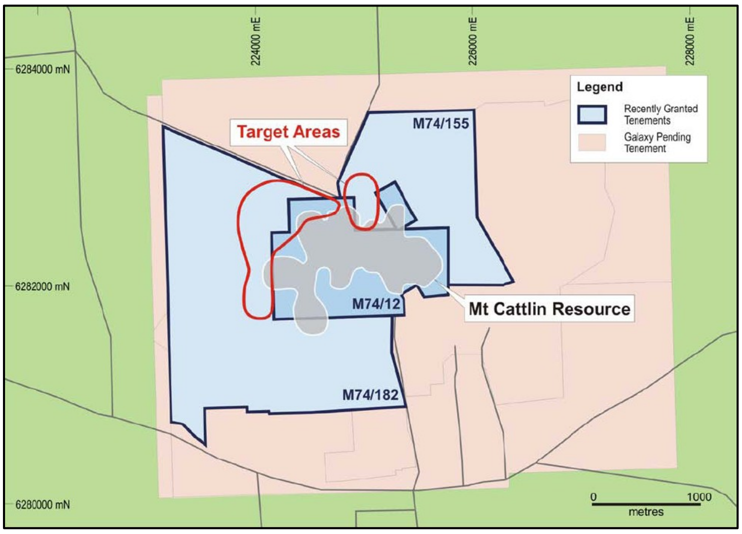


Figure 4: Target areas for resource expansion. – Source: Company.

These thick intersections offer the potential of a significant resource upgrade should they be found to be broadly extensive. With only six holes drilled thus far to test depth extensions, with each one identifying significant mineralisation extending up to 14 metres (true width), it is clear that the Mt Cattlin lithium resource is far from fully tested.

The economic viability of the deeper seams remains to be determined. Should the deeper seams prove uneconomic at current lithium prices, they would still represent excellent upside leverage to an increase in the lithium price.

5. Sole Focus on Production of Chemical Grade Spodumene Concentrate

Changes to the DFS flow sheet have been made, such that the process is now solely focused on the production of chemical grade spodumene concentrate, suitable for lithium battery manufacture.

While the changes to the flow sheet have resulted in a lower output of tantalum (20-25%) compared to the pre-feasibility study (65%), it reflects the company's belief in the growth of the lithium battery market. Thus, no spodumene concentrate will be produced for glass or ceramic manufacturing applications.

Processing of 1.0 mtpa of ore will involve:

1. Crushing and screening of ROM ore to -6 mm.
2. Three stage heavy media separation (HMS).
3. Gravity concentration (spirals and wet tables) of tantalite minerals.
4. Contract dressing and packaging of tantalite concentrates.
5. Production of spodumene concentrate at 5.0% Li_2O.
6. Shipment of bulk concentrate through Esperance port.
7. Shipping to lithium carbonate plant.

This new flow sheet excludes the grinding, classification and wet magnetic separation stages as well as eliminating the need for drying and packaging of spodumene product which would have increased operating costs.

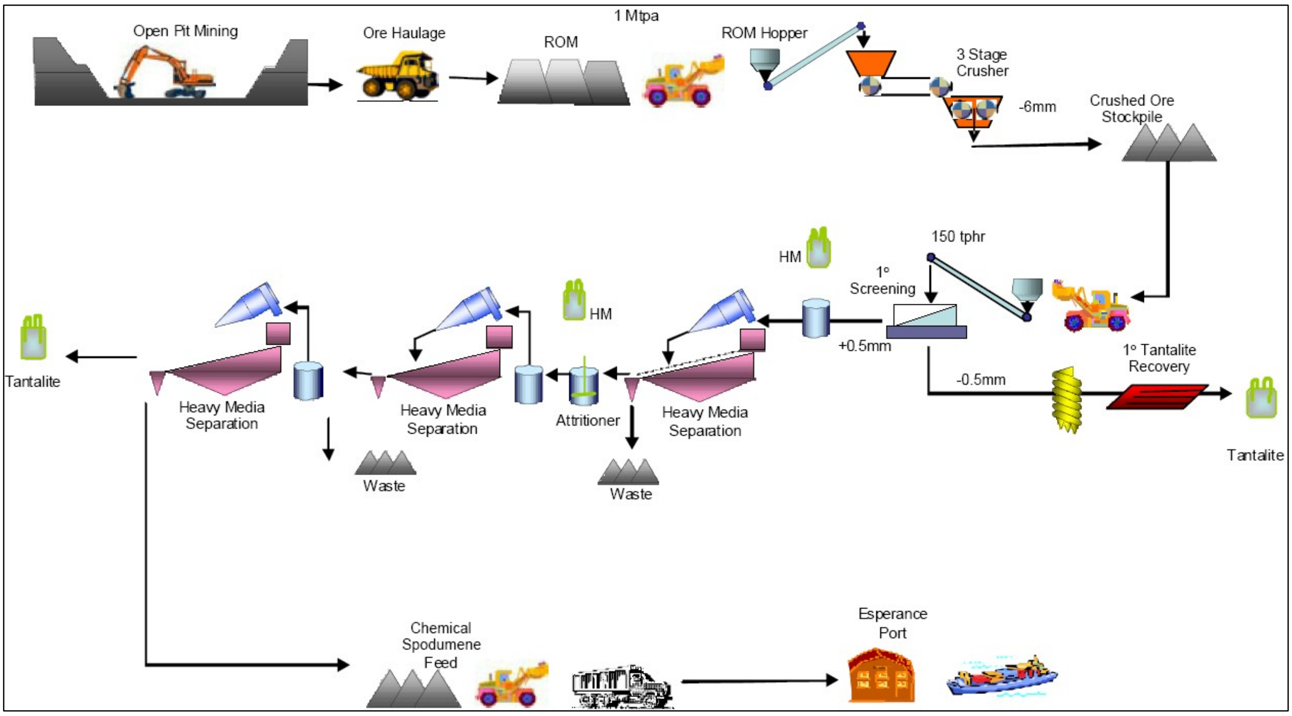


Figure 5: Updated flow sheet completed as part of the BFS, stage 1 of start up (see figures 1 and 2). – Source Company.

Mass balance yield results in spodumene concentrate production of 0.15 Mtpa (grading 5% contained Li_2O) from a 1.0 Mtpa head feed. Recovery of tantalite to final shipping concentrate is estimated at 20-25%, at a grade of 25% Ta_20_5 for 56,000 pounds of contained Ta_20_5 produced annually.

At calculated resource grades the spodumene will provide about 92% of concentrate revenue, with the balance from tantalite.

6. Capital Costs

The capital cost estimate of the Mt Cattlin project is A$68 million. Costs have been confirmed to a DFS level of confidence or +/- 15%.

Capital Costs	Included Contingency	Capex
Process Plant & EPCM	15%	A$ 53.7 million
Infrastructure, Utilities Construction and Earthworks	10%	A$ 10.2 million
Vehicles, First Fill & Prestart costs	10%	A$ 4.1 million
Total Capital Costs		**A$ 68.0 million**

The above figures have been determined on the basis of new equipment for processing plant and infrastructure. Contractors have been used for mining and related activities. This data includes purchase pricing for plant and equipment based on quotes from several suppliers. Other ancillary equipment is based on database cost estimates from recent existing contracts.

The DFS assumes contract mining with only minimal capital expenditure required by the project principal for this activity.

7. Operational Costs

Operating costs include mining, processing, site administration, transport and shipping through the Esperance Port. These costs are based on an estimated mine life of 15 years. State One believes that the company will further optimise costs particularly mining costs, which could see a further reduction of $2 to $3 per tonne. This could have a $20 to $30 million positive impact on the project NPV. Revenue per tonne is modelled to be $71/t, resulting in a modelled cash operating margin of 42%.

Operating Costs (LOM Average)	A$/t ore
Mining	A$ 17.90/t
Processing	A$ 16.30/t
Transport & Shipping	A$ 5.40/t
Overheads	A$ 1.40/t
Total	**A$ 41.00/t** (excludes royalties and sustaining capital)

8. Additional Exploration Projects

Galaxy's exploration projects include:

- Two wholly-owned impact structures in the north of Western Australia – **Shoemaker & Connolly**, which are believed to be prospective for iron ore and base metals;
- The wholly-owned **Ponton Rare Earths** Project located 535 km east of Kalgoorlie;
- A number of **copper and nickel** tenements near Ravensthorpe, held 25% by GXY after having been farmed out to Pioneer Nickel.

On the 22nd of August, Galaxy announced ground magnetic results from the Shoemaker deposit which in association with rock chip results confirmed the presence of a significant iron endowment. However, due to the remote location of the deposit further exploratory work is considered unlikely to add value at this time.

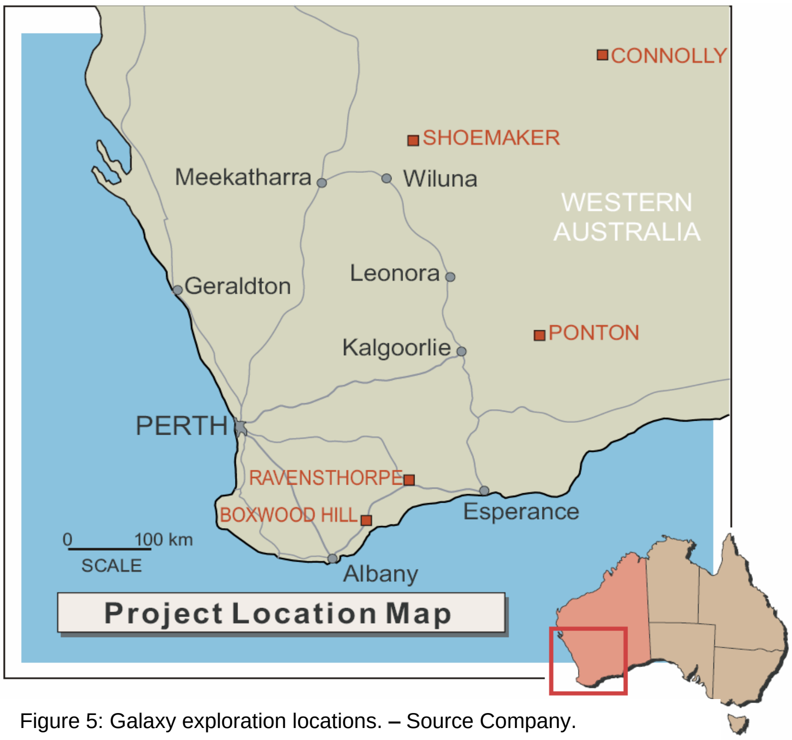


Figure 5: Galaxy exploration locations. – Source Company.

9. The Next 3 months

Galaxy's attention will now turn to securing on strategic partner for an off take agreement prior to commencing bank financing and toll treatment negotiations.

In this regard significant interest has been expressed from Japanese and other battery manufacturers in securing long term supply for what is forecast to be a much sort after commodity.

A resource upgrade and results from the feasibility study into the construction of a lithium carbonate plant at Ravensthorpe are also anticipated in the next few months.

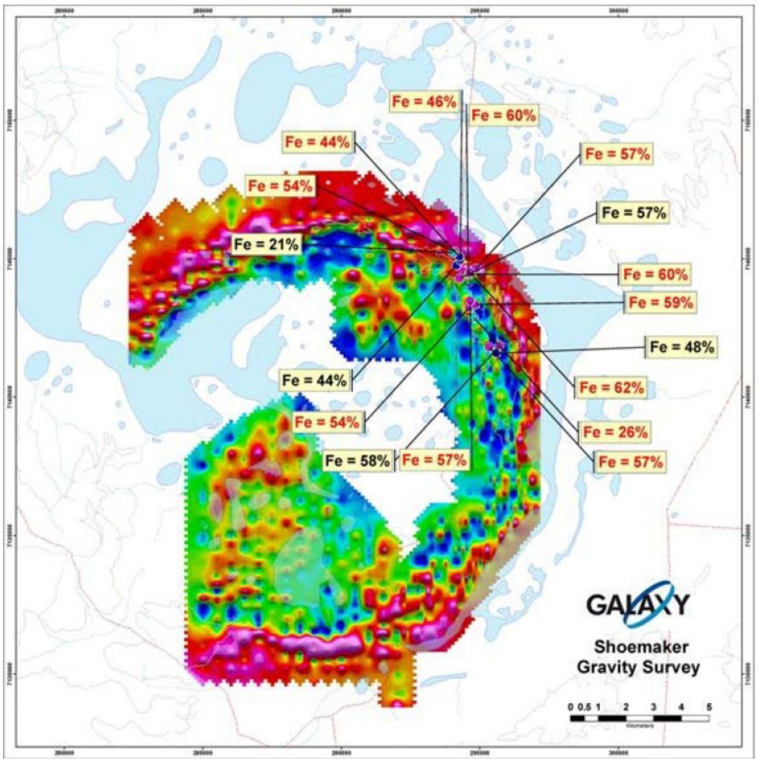


Figure 6: Rock chip sampling and magnetic survey results over the Shoemaker deposit.

10. Summary

Galaxy Resources has the most advanced lithium project in the western world and the only ASX listed company with an Australian operation.

Whilst the entry of electric cars into the market has been talked about for decades, environmental concerns and oil prices have heightened demand since 2008.

Contemporaneously, advances in battery technology have improved the marketability of electric and hybrid vehicles.

There has been a steady increase in activity in the lithium battery sector over the last 12 months;

On the 29th of September 2008 it was announced that Warren Buffet's MidAmerican Energy Holdings had bought a 10% stake in Chinese lithium battery manufacturer BYD for US$230 million.

On the 10th of October 2008 Exxon mobile announced that it was commencing construction of a lithium ion battery separator plant in South Korea at a cost of US$325 million. The plant will initially produce separator film, a key component of the lithium batteries used to power hybrid cars as well as laptops and mobile phones.

On the 16th of October 2008LG Chem (Korea's biggest chemicals firm) posted a 43% profit, primarily driven by a 81% rise in operating profit from its electronic materials division which makes next generation lithium ion batteries for hybrid cars.

On the 12th of January 2008 it was announced that the US government intends to invest up to US$1 billion in battery technology to, in part, assist its ailing car manufacturers.

As a result of the above, there is confidence in growing lithium demand and price. The Mt Cattlin Project shows robust fundamentals at current lithium prices and represents exposure through Galaxy Resources to one of the few contenders for the next commodities boom.

Directors

Craig Readhead B Juris, Ll.B (Non-executive director, Chairman)

Mr Readhead is a lawyer with 29 years experience in legal and corporate advisory services, particularly in the resources industry. In addition to being chairman and a non-executive director of Galaxy, Craig is currently chairman of Heron Resources Ltd (HRR) and non-executive director of Mount Gibson Iron Ltd (MGX), India Resources Ltd (IRL) and Frankland River Olive Company Ltd. In the past, he has also acted as chairman of Halcyon Group Ltd (now Nickelore Ltd, NIO) and Agincourt Resources Ltd (acquired by Oxiana Resources Ltd, OXR). He is also a past president of the Australian Mining and Petroleum Law Association, and is the managing partner of specialist mining and corporate law firm Pullinger Readhead Lucas.

Iggy Tan BSc, MBA, MAICD (Managing Director)

Mr Tan is an experienced operations manager with over 22 years of experience in the mining and chemical industry. He has also a proven background in both marketing and business development. Mr Tan has been in managerial roles with SCM Chemicals and Sons of Gwalia; and General Manager roles at Westlime, Iluka Resources (MW), Imdex Minerals and Metals X Limited. His responsibilities have included the commissioning and operations management of several significant mining and processing projects in Western Australia. Mr Tan managed the Lithium Mineral and Lithium Carbonate plants at Sons of Gwalia, Greenbushes operations in 1995. Mr Tan was previously the Managing Director of Nickelore Limited and remains as a director

Robert Wanless (Non-executive director)

Mr Wanless has 32 years experience in the mining industry as a prospector and mining investor. He began as a professional prospector and exploration supervisor e`mployed by Placer Exploration Ltd on their PNG and WA projects. More recently, Bob has been involved in a number of sales and joint venture agreements with listed companies, primarily in base metals and gold. He was formerly a founding director of Red 5 Ltd (RED, formerly Greenstone Resources NL) and manages Galaxy's exploration of its Ravensthorpe nickel, gold and tantalum projects.

Advisory Team

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

George de san Miguel
Equities Advisor
Phone: +61 8 9288 3334
gmiguel@stateone.com.au

Brett Walker
Equities Advisor
Phone: +61 8 9288 3337
bwalker@stateone.com.au

Charles Thomas
Equities & Derivatives Advisor
Phone: +61 8 9288 3308
cthomas@stateone.com.au

Martin Jones
Equities Advisor
Phone: +61 8 9288 3326
mjones@stateone.com.au

Jason Fung
Equities Advisor
Phone: +61 8 9288 3328
jfung@stateone.com.au

Kenny Siew
Executive Director
Phone: +61 8 9288 3318
ksiew@stateone.com.au

Peter Wong
Equities Advisor
Phone: +61 8 9288 3330
pwong@stateone.com.au

Phillip Wan
Equities Advisor
Phone: +61 2 9024 9128
pwan@stateone.com.au

Ryan Davis
Equities & Derivatives Advisor
Phone: +61 2 9024 9106
rdavis@stateone.com.au

Eugene Loy
Equities & Derivatives Advisor
Phone: +61 2 9024 9109
eloy@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Sam Berridge
Resources Analyst
Phone: +61 2 9288 3302
sberridge@stateone.com.au

Alex Beer
Analyst
Phone: +61 2 9288 3340
abeer@stateone.com.au

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Karen Tan
Dealers Assistant
Phone: +61 8 9288 3303
ktan@stateone.com.au

Matthew Drew
Dealers Assistant
Phone: +61 8 9288 3341
mdrew@stateone.com.au