

MARCH 2020 QUARTERLY ACTIVITIES REPORT

Sal de Vida project development advances & Mt Cattlin remains a high-quality hard rock 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 March 2020 quarter and its financial position as at 31 March 2020.

QUARTERLY HIGHLIGHTS

HEALTH & SAFETY

- ◆ COVID-19 health and safety practices implemented organisation wide without incident
- ◆ Mt Cattlin operations continued without disruption as non-local workforce relocated to Ravensthorpe region
- ◆ Sal de Vida skeleton crew to carry out essential services onsite, while offsite engineering work continues
- ◆ James Bay to continue offsite value engineering work while a small, site-based geotechnical program was postponed

PRODUCTION & OPERATIONS

Mt Cattlin, Australia

- ◆ Galaxy commenced execution of its market-driven strategy as operations resumed on schedule in February
- ◆ Operational settings structured to supplement inventory levels and prioritise low-grade ore for processing
- ◆ Production volume of 14,306 dry metric tonnes (“dmt”) of lithium concentrate achieved within production guidance
- ◆ Final product grade of 6.06% Li₂O achieved, reinforcing Mt Cattlin as a reliable producer of high-quality spodumene
- ◆ A shipment of 32,512 dmt generated positive free cashflow and reduced carried over 2019 inventory by half

PROJECT DEVELOPMENT

Sal de Vida, Argentina

- ◆ Work programs on the Stage One development, targeting production of primary lithium carbonate, advanced as planned
- ◆ Pilot ponds were successfully lined, 30% were filled with brine, pilot plant installed and wet commissioning commenced
- ◆ Front end engineering and design of the wellfield and ponds progressed to the tendering phase
- ◆ Testwork results continue to validate the process flowsheet developed to reduce technical complexity & risk

James Bay, Canada

- ◆ Value engineering work on upstream operations and downstream testwork continued as planned

FINANCIAL & CORPORATE

- ◆ As at 31 March 2020, Galaxy was debt free with cash and financial assets of US\$129.6 million
- ◆ To reduce corporate overheads, a 20% salary cut was applied to the Board and Executive teams
- ◆ Core management team bolstered with two new executives recruited in Major Projects and Human Resources

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. The first annual Sustainability Report was released on 20 April 2020 and is available [here](#).

Safety Performance

The Total Recordable Injury Frequency rate (“**TRIFR**”) for the rolling 12 months ended 31 March 2020 was 17.8, a 23.6% increase from the previous quarter. The increase is due to four recordable, but minor injuries, occurring at Mt Cattlin and Sal de Vida, coupled with a reduction of annual hours worked compared to the 12 months ending 31 December 2019.

Operations have continued at Mt Cattlin without any Lost Time Injury since operations resumed in late 2016. Operations at Sal de Vida were also Lost Time Injury free in the quarter.

With the objective to reduce TRIFR, Galaxy implemented increased health and safety practices focused on lead indicator measurements to increase risk awareness and injury prevention. Additionally, COVID-19 health and safety practices were implemented across the organisation without incident.

Environment

At Mt Cattlin, Galaxy sponsored a recycling workshop in conjunction with the local community. At Sal de Vida, a baseline biological survey of the flora and fauna was conducted.

Community

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

As part of a two-year corporate social responsibility program in Argentina, Galaxy has committed to three projects to support the communities surrounding the Sal de Vida project. Construction and expansion of two schools advanced to approximately 30% completion before COVID-19 restrictions were imposed. The establishment of the first aid facility is expected to commence when restrictions are lifted.

A social baseline study commenced out of the new community relations office established in Antofagasta de la Sierra. Other community initiatives undertaken included health screening checks and training in personal healthcare.

PRODUCTION & OPERATIONS

MT CATTLIN, Western Australia

As previously advised, Galaxy is adapting to soft conditions in the lithium market by lowering operational plans for 2020, prioritising the processing of low-grade stockpiled ore and drawing down final product inventory levels. In line with this market driven strategy, operations re-commenced in mid-February after a six-week planned outage. The production and sales statistics are provided in Table 1 below.

Table 1: Q1 2020 production & sales statistics & 2020 forecast production metrics

	Units	Q1 2020	2020 Forecast Production Metrics
Mining			
Total material mined	bcm	72,640	1,600,000 – 1,800,000
Ore mined	bcm	29,115	-
Processing			
Ore processed	wmt	154,457	900,000 – 1,000,000
Grade of ore processed	% Li ₂ O	1.03	1.0 – 1.2
Mass yield	%	9.5	-
Recovery	%	55	58 – 62
Concentrate produced	dmt	14,306	90,000 – 105,000
Grade of concentrate produced	% Li ₂ O	6.06	6.00
Sales			
Concentrate shipped	dmt	32,512	-
Grade of concentrate shipped	% Li ₂ O	5.90	-
Production Costs			
Cash cost per tonne produced	US\$/t FOB	592	-

Financial Performance

Mt Cattlin generated positive free cashflow by reducing 31 December 2019 spodumene inventory levels, by slightly over half.

The FOB unit cash cost of lithium concentrate produced for the quarter was US\$592 /dmt. The increase, compared to the previous quarter, is due to lower production volumes as production only re-commenced in mid-February. As production ramped up through the quarter, the FOB unit cash cost averaged US\$399 /dmt for March.

Mining

The new mining contractor mobilised to site smoothly and commenced activities in late February after the planned summer outage. During the outage the scheduled installation of the front-end optical ore sorters ("**ore sorters**") was completed.

In accordance with the 2020 mine plan, activities were focused on mining ore from the 2SE pit with volumes expected to ramp up in Q2 to reach the annual forecast volume rate.

The successful installation and commissioning of the ore sorters is a key part of Galaxy's strategy to optimise operations and control unit costs. The ore sorters are designed to upgrade over one million tonnes of low-grade ore, which has previously been expensed and stockpiled at site.

Processing

During the quarter 154,457 wet metric tonnes ("**wmt**") of ore was processed at a head grade of 1.03% Li₂O. Approximately 12% of this throughput was sourced from the low-grade stockpiles and upgraded by the ore sorters. This contribution is expected to increase as utilisation of the ore sorter circuit is optimised. The lower head grade was also in accordance with the mine plan, reflecting the section of the pit mined during the quarter.

Galaxy achieved production of 14,306 dmt of lithium concentrate at a 6.06% Li₂O final product grade. Production volumes were within guidance of 14,000 – 17,000 and final product grade represents a marginal increase compared to the prior year, reinforcing Galaxy's ability to be a reliable producer of high-quality lithium concentrate.

Plant recovery of 55% represents a marginal increase compared to the previous quarter and is expected to increase, in line with forecasts, as ore sorter utilisation increases.

Sales

32,512 dmt of lithium concentrate was shipped from the Esperance Port on 11 March. The previously reported 15,000 dmt that was sold in Q4 2019, but not shipped at the discretion of the customer will now be shipped by the end of April.

COVID-19

Galaxy responded swiftly to the COVID-19 pandemic at Mt Cattlin by introducing the necessary health practices while ensuring operations would continue without any major disruption. Interstate contractors were relocated to the Ravensthorpe region for up to six months to ensure the entire workforce was based in Western Australia. Rosters of Perth-based contractors and employees were adjusted to minimise travel and shift transitions. These actions have been implemented to mitigate the health and safety risk while adhering to the Western Australian State Government's regulations to contain the spread of COVID-19.

Outlook and Guidance

Galaxy remains on track to achieve the key operating parameters of the mine and processing plan for 2020 detailed in Table 1.

Lithium concentrate production volume for Q2 2020 is expected to be between 25,000 – 30,000 dmt. Forecast production volumes for 2020 plus existing product stockpiles of approximately 46,000 dmt at 31 March 2020 are sufficient to meet Galaxy's contracted obligations to existing customers in 2020. Additionally, mining and processing operations have the flexibility to rapidly ramp up production in response to any market improvements or as required by Galaxy's customers.

The full impact of COVID-19 on sales remains uncertain and fluid. Galaxy is monitoring the situation closely and is in regular contact with existing customers on timing of shipments for the remainder of 2020.

2019 Resource & Reserve

During the quarter, Galaxy updated Mt Cattlin's Mineral Resource and Ore Reserve estimates as at 31 December 2019.

The revised Mineral Resource, of 14.6Mt @ 1.29% Li₂O and 157 ppm Ta₂O₅¹, reflects depletion of approximately 2.1Mt from mining operations in 2019. No additional resource definition drilling occurred during 2019 and the revised estimate is based on Mt Cattlin's Mineral Resource as at 31 December 2018.

In addition to mining depletion, the Ore Reserve was recast based on modifying factors and reclassified due to the impact of supporting drilling data from mining operations. The revised Ore Reserve, of 8.2Mt @ 1.29% Li₂O and 155 ppm Ta₂O₅², reflects a 0% dilution factor (2018: 17% dilution factor) and a mining recovery of 92.5% (2018: 93%). The 0% dilution is reflective of an ore dispatch system and the front-end ore sorter that eliminates waste before it is presented to the plant.

Further information on the revised classified Mineral Resource and Ore Reserve estimates as at 31 December 2019 is available [here](#).

Exploration

A high-resolution airborne electromagnetic survey was completed over approximately 10km² of exploration tenements north and south of Mt Cattlin's mining lease. Preliminary results have been received and will be integrated into ongoing target generation.

A regional grid-based auger geochemical sampling programme commenced over tenements to the north of Mt Cattlin. 216 samples were collected toward the end of the quarter and the programme is ongoing.

¹ Measured (in-situ) – 1.0Mt @ 1.36% Li₂O and 210 ppm Ta₂O₅, Indicated (in situ) – 6.2Mt @ 1.44% Li₂O and 167 ppm Ta₂O₅, Indicated (stockpiles) – 3.0Mt @ 0.93% Li₂O and 121 ppm Ta₂O₅, Inferred (in situ) – 4.4Mt @ 1.30% Li₂O and 156 ppm Ta₂O₅

² Proven (in-situ) – 0.8Mt @ 1.42% Li₂O and 213 ppm Ta₂O₅, Probable (in-situ) – 4.5Mt @ 1.51% Li₂O and 168 ppm Ta₂O₅, Probable (stockpiles) – 3.0Mt @ 0.93% Li₂O and 121 ppm Ta₂O₅

PROJECT DEVELOPMENT

SAL DE VIDA, Catamarca, Argentina

Project Execution Strategy

Galaxy's strategy for the execution of the Sal de Vida Project is a staged development to de-risk the project and smooth capital expenditure. The initial stages target primary lithium carbonate production and the final stage targets purification into battery grade lithium carbonate at an offsite location. A simplified process flow sheet, which was recently optimised to reduce technical complexity, also retains flexibility to expand into lithium hydroxide production depending on future market dynamics.

Galaxy is committed to ensuring Sal de Vida's capital intensity and unit operating costs are highly competitive. Work programs are focused on realising these objectives to underpin a final investment decision ("FID") on Stage One. Stage One can be substantially funded internally and targets early earnings realisation from the initial commercialisation of primary lithium carbonate.

Studies and Engineering

Solid progress was made during the quarter on planned work programs on Stage One. Detailed Scopes of Work ("SoW") for front end engineering design ("FEED") of the wellfield and ponds were completed and issued for tender. Proposals have been received from highly reputable engineering companies and Galaxy is conducting a rigorous evaluation and selection process.

Various other studies advanced to inform more detailed project execution strategies and SoW for tender, including:

- ◆ The sizing study for the process plant was completed, confirming the optimal size to support a staged development. This will inform the process plant package and SoW for the engineering tender in Q2 2020
- ◆ The location of the initial wellfield was evaluated and selected and the SoW for production well drilling in the selected wellfield has since been prepared for tender in Q2 2020
- ◆ Preferred logistical and energy solutions have been identified and will be incorporated for detail design and planning.

Site Works

The objective of the pilot ponds and plant is to refine key operating assumptions and facilitate product qualification of primary lithium carbonate with prospective offtakers. Pilot scale purification of generated samples to battery grade will also be completed at an offsite laboratory.

Lining of the 15-hectares of pilot ponds was completed during the period with over 30% of the ponds filled with brine from a well. The ponds and plant can be seen in Figure 1. The pilot plant was successfully constructed and advanced to wet commissioning by the end of the quarter.



Figure 1: Completion of pilot plant construction (left) and over 30% of pilot pond were filled with brine (right) at the end of the quarter

In H2 2019, a simplified flowsheet was developed in house and test work during the quarter was undertaken to further optimise and validate key operating assumptions in relation to recovery and reagent consumption. The testwork continues in Australia, with limited COVID-19 impacts to date. Results received to date confirm many of the assumptions and parameters in the simplified flowsheet.

Other onsite activities included the completion of the camp upgrade and expansion to a capacity of 116 workers to cater for the construction of the pilot ponds and plant and piloting phase operations.

COVID-19

In late March, the Government of Argentina enforced a nationwide lockdown with mandatory restrictions imposed until at least 26 April 2020. As a result, the majority of Galaxy's workforce was demobilised from site with only a skeleton crew remaining to conduct essential services. Whilst the Government has recently permitted operating mines to resume, Sal de Vida is in the development phase and remains subject to restrictions.

These restrictions will delay onsite activities, however offsite engineering work and various studies continue unaffected. Onsite, the current status is:

- ◆ Pilot ponds construction and lining completed and all ponds have received brine to confirm the quality of liner installation
- ◆ Pumping brine to fill the ponds to an operational level, allowing an aquifer and well operational performance test

The priority of the management team is to adapt existing plans to the new provincial protocols for site activities, with a view to mobilise critical resources back to site to re-commence final commissioning activities leading to the initial operation of the pilot plant when restrictions are lifted.

The full impact of the restrictions on the timing of the completion of works necessary to reach a FID is yet to be defined, however Galaxy is monitoring the situation and will inform the market of any material change.

JAMES BAY, Quebec, Canada

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 during the quarter on both the upstream and downstream components of the project.

Value engineering work on the upstream component continued with the objective of identifying capital and operating cost reductions. This work is on track to be completed in Q2 2020. A small site-based geotechnical program to optimise the site layout and reduce civil and earthworks costs started however the program was postponed towards the end of the quarter due to restrictions enforced by the Quebec Government in relation to COVID-19.

In February 2020, the Quebec Government and the Cree Nation Government signed The Grand Alliance, a Memorandum of Understanding that details an agreement for collaborative, long-term, economic development in the Eeyou Istchee James Bay Territory. Galaxy is having regular discussions with various stakeholders to understand how The Grand Alliance could benefit the project and its surrounding communities in terms of off-site infrastructure including power, rail and logistics.

Phase 2 of downstream test work for the conversion facility progressed as planned. Laboratory test work was completed, with data interpretation, analysis and reporting in progress. Results to date have been positive.

Ongoing permitting work continued throughout the quarter, including the Impact and Benefit Agreement with the Cree Nation and the Environmental and Social Impact Assessment clarification process.

FINANCIAL & CORPORATE

Cash and Debt

As at 31 March 2020, Galaxy was debt free with cash and financial assets of US\$129.6 million.

To assist in preserving the balance sheet in a time of uncertainty around the lithium industry and Galaxy's market, a 20% salary reduction was applied to the Board and Executive teams. Galaxy continues to pursue a range of other cost reduction initiatives throughout the business.

Executive Team

Tom Blackwell as 'Executive – Major Projects' and Megan Schmiede as 'Executive – Human Resources' were recruited into the executive team during the quarter. Mr Blackwell brings a wealth of experience leading teams through the delivery of both green and brown field projects and has been appointed to oversee key strategic mineral and technological developments. Ms Schmiede is an experienced human resources professional specialising in the Australian and International resources sector and has been appointed to enhance the human capability of Galaxy.

Annual General Meeting

The Annual General Meeting will be held via a live webcast at 2:00pm (AWST) on Thursday, 21 May 2020. Further information is available here in the [Notice of Meeting](#) and the [AGM Live Webcast Details](#) announcement.

INDUSTRY AND MARKET UPDATE

Market conditions in the lithium sector continued to decline due to volatile macroeconomic factors that were heightened from disruptions arising from the COVID-19 pandemic. Despite continued underperformance in Q1 2020, the outlook still remains positive in the mid-term with increasing public awareness of climate change risks and significant investment downstream in electric vehicle production capacity and battery manufacturing.

Demand

China still represents the largest market for lithium and has one of the world's strictest emission standards. In January, China's Minister for Industry and Information Technology ("MIIT") announced that the country does not plan to cut subsidies in July 2020 for China new energy vehicles ("NEV"). Despite this positive demand indicator, an earlier than usual Chinese New Year and the outbreak of COVID-19 caused significant disruption to China's overall automotive industry.

In China, total vehicle production and sales declined by 45% and 42% yoy, respectively. According to CAAM, China NEV sales declined by 56% yoy in Q1, not including sales made by Tesla in China, which if included is estimated to reduce the decline to 52% yoy. China NEV battery installation capacity declined 54% yoy during the same period.

March NEV sales numbers indicated some signs of recovery for China's EV industry as the country gradually lifted restrictions. Further, the State Council of China announced a 2-year extension to NEV subsidies to support MIIT's target of a 25% penetration rate of NEVs by 2025. Numerous EV sales stimulus measures were announced at both provincial and municipal levels late in, and subsequent to, the quarter. This is expected to support a recovery in sales, along with the launch of new flagship models from domestic auto OEMs.

In 2019 the rest of the world reported significant growth in EV sales with a 32% yoy growth in volume. In Europe, plug-in electric vehicles sales reported strong growth in aggregate for January and February, amounting to 145,000 units, representing a 119% growth when compared to the first two months in 2019.

Supply

Inventory stockpiles of lithium raw materials which were drivers of supply side and pricing challenges in 2019 continued to be an overhang in Q1 2020 prior to the outbreak of COVID-19.

Further supply rationalisation is expected for the year as production in South America is expected to be disrupted by government restrictions in response to COVID-19. Additionally, a number of upstream development and expansion projects have been delayed or suspended indefinitely.

Lithium concentrate producers in Western Australia continued to trade in difficult conditions after coming under increasing pricing pressure in 2019, which led to supply side rationalisation and in the case of some projects, the suspension of operations.

In China, many downstream lithium businesses restarted operations throughout the latter part of February into March, however demand side response continues to be soft.

Many OEMs globally have reported temporary suspension of plant operations and some are, for now, repurposing lines for the production of emergency resources in light of the pandemic. Positively, major automakers have stayed on course to transition to EVs despite resistance from internal combustion engine industries in Europe and the US citing market struggles from the pandemic.

Pricing

Prices continued to decline during the quarter and with further weakening of current demand, it is expected that purchasing volumes and pricing will come under additional pressure in the coming period.

According to Asia Metals, China domestic battery grade lithium carbonate spot pricing was reported at RMB46,500 per tonne at the end of March 2020, representing a quarterly decline of 6%. Lithium hydroxide reported at RMB54,000 at the end of the quarter, which remained unchanged from the previous period.

Benchmark Minerals Intelligence reporting lithium carbonate and lithium hydroxide weighted average prices at US\$7,100 and US\$9,300 per tonne respectively at the close of Q1 2020, representing a quarterly decline of 11% and 7%.

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 development at the Sal de Vida lithium 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.

Competent Person Statement

Any information in this report that relates to Mt Cattlin Mineral Resources and Ore Reserves is extracted from the report entitled "2019 Resource and Reserve Update" created on 11 March 2020 which is available to view on www.gxy.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 and that all material assumptions and technical parameters underpinning the Mineral Resources and Ore Reserves estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

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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