

SEPTEMBER QUARTER 2019 QUARTERLY ACTIVITIES REPORT

Consistent execution of low-cost production at Mt Cattlin

Galaxy Resources Limited (ASX: GXY, “Galaxy” or the “Company”) is pleased to report to shareholders on activities completed for the September quarter 2019 and its financial position as at 30 September 2019.

HIGHLIGHTS

Production & Operations

- ♦ Mt Cattlin production volume of 50,014 dry metric tonnes (“dmt”) of lithium concentrate, grading 6.0% Li₂O, the midpoint of production guidance of 45,000 – 55,000 dmt
- ♦ Mt Cattlin production unit cash cost of US\$387 / dmt produced free-on-board (“FOB”), reinforcing Mt Cattlin as one of the lowest cost lithium concentrate operations globally
- ♦ Total shipment volume of 58,278 dmt of lithium concentrate, slightly under guidance of 60,000 – 70,000 dmt

Development Projects

- ♦ Stage 1 test work related to optimising the base case flowsheet at Sal de Vida is now complete, with positive results from preliminary evaluation; final evaluation will be completed in Q4 2019
- ♦ Several, significant flow sheet improvements and simplifications have been identified and broader work is underway on opportunities to de-risk project development with highly encouraging results from preliminary evaluation
- ♦ Two-year corporate social responsibility program agreed with the Government of Catamarca and first project commenced
- ♦ Project design and preliminary costings related to the James Bay upstream operation undergoing review and optimisation
- ♦ Phase 2 test work related to the James Bay downstream operation progressing

Corporate

- ♦ Galaxy executed an agreement with a consortium of lenders to acquire the senior secured loan facility provided to Alita Resources Limited (ASX: A40); Galaxy continues to assess restructuring options related to Alita and Bald Hill
- ♦ Closing cash of US\$169 million and debt of US\$32 million as at 30 September 2019

SUSTAINABILITY

During Q3 2019, Galaxy appointed a leading international environmental consultancy to assist in the development of a comprehensive sustainability strategy for the Company. Galaxy is seeking to ensure its environmental, social and governance practices are aligned with international frameworks in a manner appropriate to the scale of operations, expectations of key stakeholders and the jurisdictions in which the Company operates.

Safety Performance

The Total Recordable Injury Frequency rate for the rolling 12 months ended 30 September 2019 was 16.73. Operations at Mt Cattlin have continued without any Lost Time Injuries.

Environment

Completed rehabilitation of the southern face of the Mt Cattlin waste rock dump which faces the town of Ravensthorpe. Commenced in-pit tailings and capped the surface of the tailings dump to reduce dust emissions.

The Argentinian evaluating authority approved the extension of Sal de Vida's environmental permit for the standard period of two years. Additionally, a water permit application was filed and approved, allowing Galaxy to extract superficial water from the Rio de los Patos for onsite test work and piloting operations.

Community

As part of Galaxy's community engagement in Ravensthorpe, submissions related to the Company's "Powering towards the future" program, an initiative focused on providing funding for the acquisition and installation of solar panels and battery storage equipment at public facilities, were reviewed and successful applicants notified.

In Argentina, Galaxy and the Government of Catamarca agreed a two-year corporate social responsibility program that will be undertaken by Galaxy to support communities in regions surrounding Sal de Vida. On the ground work has commenced on the first of three agreed projects. Galaxy attended a briefing of Argentinian mining CEOs conducted by Presidential Candidate, Alberto Fernandez, where Mr. Fernandez discussed his preliminary plans on economic management as it related to the industry and reinforced his general support for the lithium sector in Argentina.

PRODUCTION & OPERATIONS

Table 1: Production & Sales Statistics

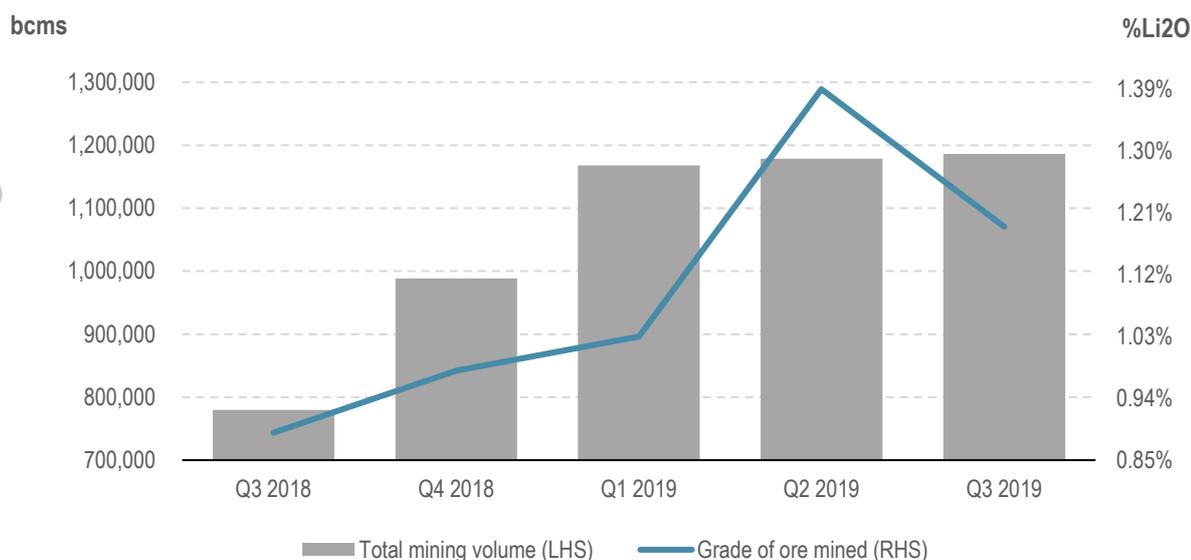
	Units	Q1 2019	Q2 2019	Q3 2019	YTD 2019	FY Guidance
Mining						
Total material mined	bcm	1,168,120	1,178,925	1,186,040	3,533,086	-
Ore mined	wmt	437,932	379,187	467,594	1,284,713	-
Grade of ore mined	% Li ₂ O	1.03	1.39	1.19	1.19	1.15
Processing and Sales						
Ore processed	wmt	409,849	426,846	454,526	1,291,221	1,700,000 – 1,800,000
Grade of ore processed	% Li ₂ O	1.15	1.40	1.18	1.24	-
Mass yield	%	10.5	13.5	11.2	11.7	-
Recovery	%	51	58	57	56	-
Concentrate produced	dmt	41,874	56,460	50,014	148,348	183,000 – 193,000
Grade of concentrate produced	% Li ₂ O	5.7	6.0	6.0	5.9	-
Concentrate shipped	dmt	15,192	29,439	58,278	102,909	-
Grade of concentrate sold	% Li ₂ O	5.6	5.9	6.0	5.9	-
Production Costs						
Cash cost per tonne produced	US\$/t FOB	453	337	387	387	-

Mining

During the quarter, ore mined was sourced from two faces within the 2 North West and 2 North East pits. Total mined volume for the quarter of 1,186,040 bcm was 1% higher quarter-on-quarter ("qoq"). Total volume of material mined has been consistent throughout each of the three quarters of 2019 which is indicative of more efficient mining practices that have improved the overall utilisation of the mining fleet. Improved utilisation has also been enabled by the completion of the Ravensthorpe creek diversion which has resulted in larger mining benches and less restricted operations. Despite the consistency in total material mined, ore mined for Q3 2019 increased 23% qoq following improved ore recovery, due in part, to the thick nature of pegmatites mined throughout the quarter and the larger bench sizes.

The average grade of ore mined for Q3 2019 was 1.19% Li₂O, slightly higher than budgeted. The average grade of ore mined for the full year is expected to be in line with the reserve grade of 1.15% Li₂O.

Figure 1: Mining Volumes & Grade of Ore Mined



Processing

Operations throughout the September quarter focused on maintaining the consistency of final product quality and low unit operating cash costs.

454,526 wet metric tonnes (“wmt”) of ore was processed during the quarter with an average head grade of 1.18% Li₂O. Plant throughput improved in comparison to Q2 2019, principally due to debottlenecking in the re liberation circuit and replacement of several screen panels in the Dense Medium Separation circuit. Record monthly plant throughput of 154,851 wmt was achieved in August. Strong throughput volumes supported the second consecutive quarter of concentrate production volumes in excess of 50,000 dmt.

The final product grade in Q3 2019 was 6.0% Li₂O while overall lithium recovery achieved was 57% (1% lower than Q2 2019). Along with a reduction from targeting higher grade final product, recovery was also impacted by the treatment of a small batch of ore with an unexpectedly high concentration of basalt in early September and resulting underperformance of the final product optical sorter.

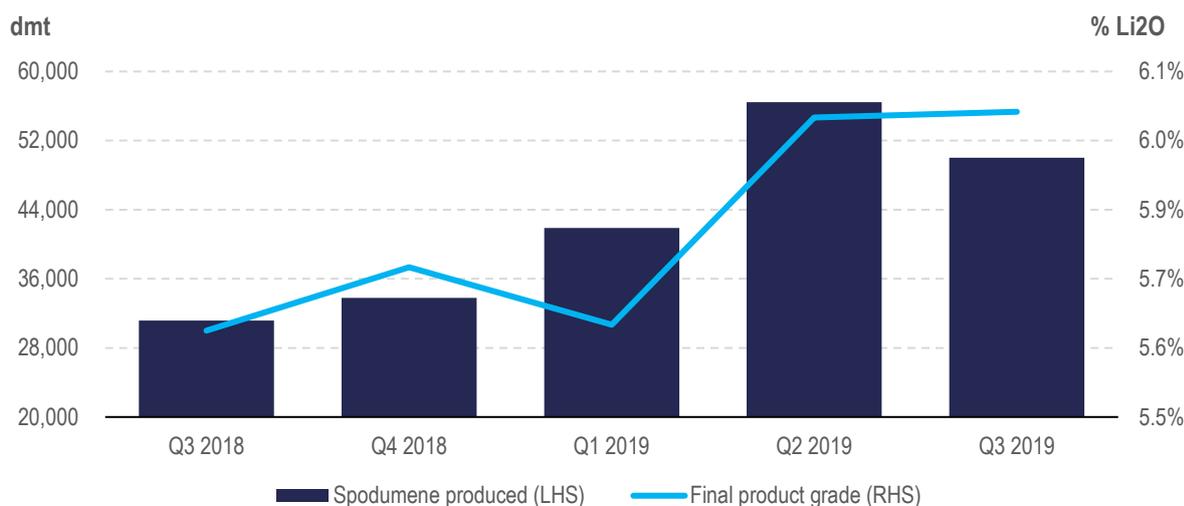
Onsite optimisation works throughout Q3 2019 were predominantly focused around the final product optical sorter. The major changes made included repositioning of the optical camera and improving the presentation of feed material to the sorter. Following these improvements, 79% utilisation was achieved in September, resulting in a greater rejection of basalt from the final product and improved overall plant recovery.

Galaxy is conducting a technical and economic assessment of installing additional optical sorter units at the front end of the process plant that will reject ore impurities upfront allowing for the treatment of contaminated ore stockpiles and further debottlenecking the plant.

Mt Cattlin production output remains on track to meet full year production guidance.

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Figure 2: Production Volumes & Grade of Final Product



Shipments

Three shipments were completed during Q3 2019 for a total of 58,278 dmt of lithium concentrate, slightly below the guidance range of 60,000 – 70,000 dmt.

Financial Performance

The FOB unit cash cost of lithium concentrate produced was US\$387 / dmt in Q3 2019, reinforcing Mt Cattlin’s market position as one of the lowest cost producers of spodumene in the world.

The small qoq increase in unit operating costs was predominantly as a result of a lower production volume and a lower grade of ore processed in Q3 2019, following a record quarter of production in Q2 2019.

Cost reduction initiatives continue to be a major focus at Mt Cattlin. Galaxy has undertaken a review of all key contracts, including operational and sales and marketing agreements. Several further potential sources of cost reduction have been identified and are being pursued. Pleasingly, the response of contracting partners to negotiations has been positive in reducing costs. Galaxy is also working with its mining contractors to enhance operating methodologies that allow for more efficient use of mobile equipment.

Guidance

Targeted lithium concentrate production volume for Q4 2019 is 35,000 – 45,000 dmt, implying full year production guidance of 183,000 – 193,000 dmt, within the previous guidance range of 180,000 – 210,000 dmt

Target shipment volumes for Q4 2019 are 30,000 – 40,000 dmt. Shipment volumes will be dictated by the pace at which customers are able to destock existing inventory levels.

Outlook

Galaxy is undertaking a review of Mt Cattlin operations to determine the optimal scale of operations in response to the market conditions currently being experienced in the lithium sector. The key drivers in this review are to prioritise value over volume, to ensure Mt Cattlin continues producing a positive operating cash margin, preserving resource life and to maintain balance sheet capacity for advancement of the Company’s development portfolio.

The review is nearing completion and the expected outcome for 2020 is that mining operations will be scaled back with material mined to be reduced by approximately 40%. Stockpiled ore will be co-treated, through the implementation of the ore sorters, enabling concentrate production to be maintained at approximately 75% of the current rate.

Cost reduction initiatives will continue to be a major focus area at Mt Cattlin. Galaxy has undertaken a review of all key contracts and identified several potential sources of cost reduction, some of which have already been realised.

This reduced scale of operation, combined with the cost initiatives currently underway, will allow Galaxy to maintain a low unit operating cost and a forecasted positive operating cash margin. Production volumes plus the existing product stockpiles are expected to be sufficient to meet the requirements of contracted customers in 2020. As there will be no change in staff levels and contractors,

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production will be able to be ramped back up to full rates promptly, when market conditions improve or as required by Galaxy's customers.

PROJECT DEVELOPMENT

Sal de Vida

Development work on the Sal de Vida Project progressed throughout Q3 2019. Efforts were predominantly focused on advancing the dual stream test work program as well as preparation for site works in Q4. Stage 1 of hydrometallurgical test work related to optimising the existing base case flowsheet is now complete, with very encouraging results from preliminary evaluation. The final evaluation of results and updated process design materials will be completed in Q4 2019. Analysis has identified several significant enhancements and simplification of the flowsheet that are now being validated further. Other initiatives to de-risk project development are progressing positively.

Preliminary testing of alternative process technologies is also nearing completion. Test work results will be used to estimate order of magnitude economics in order for Galaxy to determine which individual technology best suits the development of the valuable Sal de Vida asset.

Galaxy expects to complete an updated and refined project plan for Sal de Vida later in Q4 2019.

Other site works included upgrading of the existing camp facilities to cater for upcoming construction and development activities. Once the upgrade is complete, lining and filling of the demonstration evaporation ponds will commence. This is anticipated for Q4 2019.

A further upgrade of the existing pilot plant facilities is also scheduled for Q4 2019. Additional processing equipment is in transit to site for installation in Q4 2019. Piloting at Sal de Vida will be the next extension of test work and will be used to validate operating assumptions of the process flowsheet design. Production wells will be utilised to fill the demonstration ponds this summer enabling testing of evaporation parameters prior to the treatment of the evaporated brine through the upgraded pilot plant. Test programs will be designed to validate the enhanced flowsheet under real operating conditions.

James Bay

James Bay feasibility work continued as planned in Q3 2019.

Phase 2 test work related to the upstream operation was completed in Q3 2019, confirming the operating parameters of the process design criteria for the concentrator throughout all stages of the project life, and validating the previous Phase 1 results. Other key outputs delivered included completion of the "pre-work" mandate by Hydro-Quebec confirming the availability of power required for the operation, and preliminary design and costings of the concentrator and associated infrastructure. Feasibility work related to the upstream operation is undergoing comprehensive review and a value engineering exercise for further optimisation.

Phase 2 test work for the downstream lithium conversion operation continued during Q3 2019. The pyrometallurgy and purification portion of the test work, being undertaken by Hazen Research is expected to be completed in Q4 2019, and work related to the hydrometallurgy portion of the flowsheet, being performed by SGS Canada, will begin in Q4 2019.

Galaxy continues to engage with both the federal and provincial governments regarding clarifications related to the Environmental and Social Impact Assessment. Impact and Benefits Agreement discussions are underway with the Cree Nation of Eastmain and the Cree Nation Government.

EXPLORATION

Mt Cattlin

Exploration at Mt Cattlin was curtailed in Q3 2019 given the start of the southern West Australian crop growing season on surrounding farmland. Assays were finalised for 3 greenfields drill holes completed in H1 2019. Results identified potential exploration targets that require further reverse circulation drilling.

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

Acquisition of Senior Secured Debt Facility – Alita Resources Limited

Galaxy executed an agreement to acquire the senior secured loan facility (“**Facility**”) provided to Alita Resources Limited (ASX: A40, “**Alita**”).

Pursuant to a Sale and Purchase Agreement and a Transfer Certificate, the rights, title and interest of the Facility, with principal value of US\$28.8 million, were assigned and novated to Galaxy. The total amount assigned and paid, including all accrued interest, fees and costs was US\$31.1 million.

Appointment of Receivers & Managers to Alita Resources Limited

On 28 August 2019, the Alita Directors resolved to appoint Richard Scott Tucker and John Allan Bumbak of KordaMentha (“**administrators**”) as administrators of the company. Following this appointment, Galaxy appointed Martin Jones, Matthew Woods and Andrew Smith from KPMG as receivers and managers (“**receivers**”) of Alita and certain of its subsidiaries pursuant to the Facility.

Galaxy continues to work with the receivers and administrators to determine a course of action for the Alita Group. In September, the Supreme Court of Western Australia approved an extension of the convening period until 11 December 2019.

Cash and Debt

Galaxy had cash of US\$169 million and debt of US\$32 million as at 30 September 2019.

FINANCIAL

A one-off cash outflow incurred in the quarter with the purchase of the Alita Facility. Transaction consideration was funded through a drawdown on Galaxy’s pre-existing debt facility.

INDUSTRY AND MARKET UPDATE

Performance across the electric vehicle and lithium-ion battery supply chain sector continued to be soft during Q3 2019. A combination of industry and macroeconomic factors, including the US / China trade dispute, as well as weaker than expected growth in China has negatively impacted the overall economic outlook and short-term sentiment.

Despite the short-term weakness in lithium markets, the medium to long term demand fundamentals remain largely unchanged. Disruptive growth will be driven by accelerated growth in global electric vehicle ("EV") markets and increased market penetration of lithium-ion batteries in the emerging electrified energy storage system market.

Demand

A soft quarter in Chinese New Energy Vehicle ("NEV") manufacturing production, as well as subdued deliveries in the USA were core contributors to the weakness in lithium demand during Q3 2019. Weakness in Chinese NEV volumes were a function of an industry adapting to the lower subsidy environment, as well as significant discounting in internal combustion engine vehicles that will no longer be compliant with the stricter China VI emissions standards announced in June.

Pleasingly, growth in plug-in electric vehicle ("PHEV") deliveries in Europe continued throughout Q3 2019. European passenger PHEV sales reached c.36,000 in July (34% growth YoY) and c.35,000 in August (15% growth YoY).

Full year EV production volumes across the globe are still expected to achieve double digit growth year on year. Asian cathode material orders began to pick up over the last couple of months suggesting a recovery in NEV demand.

Positive indicators of the industry's medium to long term fundamentals include continued downstream investment by incumbent battery manufacturers and OEMs and continued execution of downstream corporate partnerships (e.g. VW / Ford, VW / Northvolt, Tesla / LG Chem, Toyota / BYD, Toyota / CATL). Also, global policy developments continue to drive and support such investment, as exemplified by stricter emissions targets in China and stricter climate protection measures, including future carbon pricing in Germany.

Supply

The key supply side pressures remain significant stockpiles of lithium products and an oversupply of lithium materials.

Pressure associated with low-prices and increased competition is forcing a supply side rationalisation. This is evident from the shutting and slowing of various spodumene operations, as well as announcements by leading chemical suppliers on tempered expansion plans.

In the spodumene market, the magnitude of supply volumes, and a low utilisation of conversion capacity has driven market prices to fall below the operating cost of marginal producers. In lithium chemical markets, low cost brine production has sought to displace production output of high cost, unintegrated domestic converters in China.

Pricing

Domestic lithium chemical prices in China fell in Q3 2019. Domestic battery grade lithium carbonate and lithium hydroxide prices were c. RMB 59,000 – RMB 62,000 per tonne and c.RMB 65,000 – RMB 68,000 per tonne, respectively.

Offshore pricing into Japan and Korea was more robust with prices for battery grade lithium carbonate and lithium hydroxide at c.US\$9,900 and c.US\$11,700 per tonne, respectively. Contract terms and strong demand growth from cathode producers for lithium hydroxide has supported the higher price premium for hydroxide in this region. Record hydroxide volumes have been imported, predominantly from China throughout 2019 to support high-nickel cathode developments.

ENDS

For more information, please contact:

Corporate

Daniel Harangozo
Investor Relations
+61 (8) 9215 1700
info@gxy.com

Media Enquiries (Australia)

Nigel Kassulke
Cannings Corporate Communications
+61 407 904 874
+61 (2) 8284 9990
nkassulke@cannings.net.au

Media Enquiries (International)

Heidi So
Strategic Financial Relations Group
+852 2864 4826
heidi.so@sprg.com.hk

About Galaxy (ASX: GXY)

Galaxy Resources Limited is an international S&P / ASX 200 Index 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.

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