

GALAXY RESOURCES LIMITED

Financial Results for the Half-Year Ended 30 June 2020

27 August 2020

ASX:GXY



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

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June Half Year 2020 – Snapshot



Financial results impacted by short-term market weakness; however Galaxy remains poised to execute its growth strategy

Operations



Spodumene produced
45,248 dmt

In line with lower operational settings

June 2019: 98,334 dmt

Sales



Spodumene sold
58,541 dmt

Inventory of 49,463 dmt held at 30 June 2020

June 2019: 44,630 dmt

Profit & Loss



Revenue
US\$23.3M

June 2019: US\$28.0M

Balance Sheet



Cash & Financial Assets
US\$108.6M²

31-Dec-19: US\$143.2M

Unit cash cost produced
US\$469/dmt

(US\$412 dmt for June 2020 quarter)

June 2019: US\$387/dmt

Grade of concentrate produced
6.0 % Li₂O

June 2019: 5.9% Li₂O

Statutory NPAT
(US\$22.2M)¹

June 2019: (US\$171.9M)¹

Debt
Nil

31-Dec-19: Nil

Promoting sustainable development



Work program commenced to align Galaxy's sustainable practices with global standards

Health & Safety

The health & safety of our workforce, and communities in which we operate, is Galaxy's utmost priority

- 13.9 TRIFR for the rolling 12 months ended 30 June 2020
- All operations remained LTI free for past 12 months
- Enhanced health & safety practices actioned earlier in the year

Environmental Stewardship

- At Sal de Vida, the groundwater permit for industrial and domestic use was granted by the provincial water authority
- A social and environmental baseline study was completed at Sal de Vida

Social Responsibility

- US\$850k social investment commitment at Sal de Vida for three active projects
- At Mt Cattlin, Galaxy sponsored a series of workshops for the local community promoting health and wellbeing practices
- IBA discussions continue with the Cree Nation in Quebec, Canada

People Focus

- Executive and Sal de Vida management teams bolstered
- 100% local teams at Sal de Vida and James Bay
- Lithium seminars conducted in conjunction with the University of Catamarca

Galaxy's Sustainability Report is available [here](#)



COVID-19 Response



Health & safety practices implemented organisation wide without incident

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Offsite engineering work continues unhindered

Geotechnical site program recommenced in July with all necessary health measures in place

Remains closed in accordance with regulatory bodies and guidelines

Onsite activities, including piloting, are underway as existing plans are adapted to provincial protocols

Offsite engineering work and studies continue unhindered

Re-opened in accordance with provincial protocols

James Bay

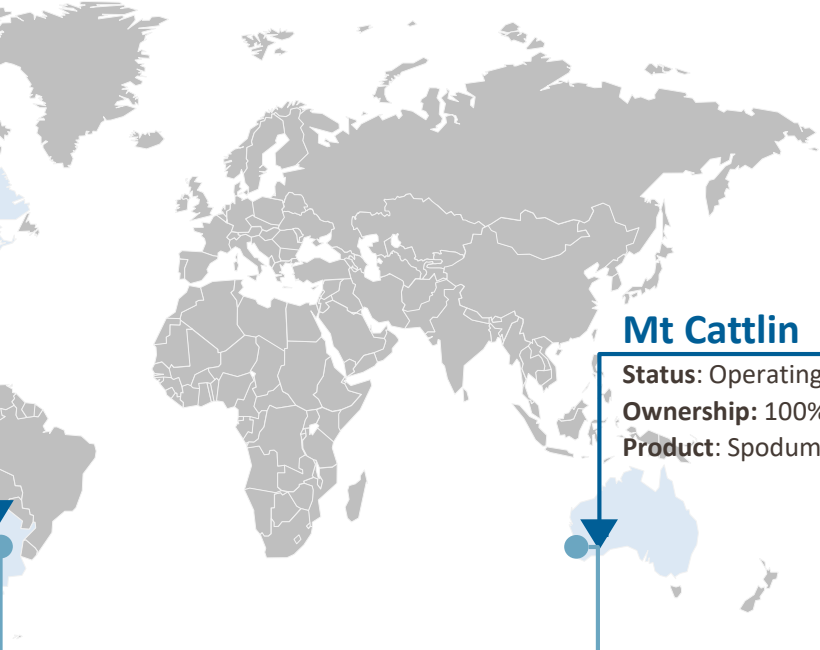
Status: Feasibility
Ownership: 100%
Product: Spodumene initially

Quebec Office

Sal de Vida

Status: Early development
Ownership: 100%
Source: Brine
Product: Lithium carbonate primary grade initially

Catamarca Office



Mt Cattlin

Status: Operating
Ownership: 100%
Product: Spodumene

Perth Head Office

Operations continue without major disruption as non-local workforce relocated to Ravensthorpe region

Perth based contractors and employees are in the process of returning to pre-COVID-19 rosters

Re-opened in accordance with local guidelines

Legend

▼ Project

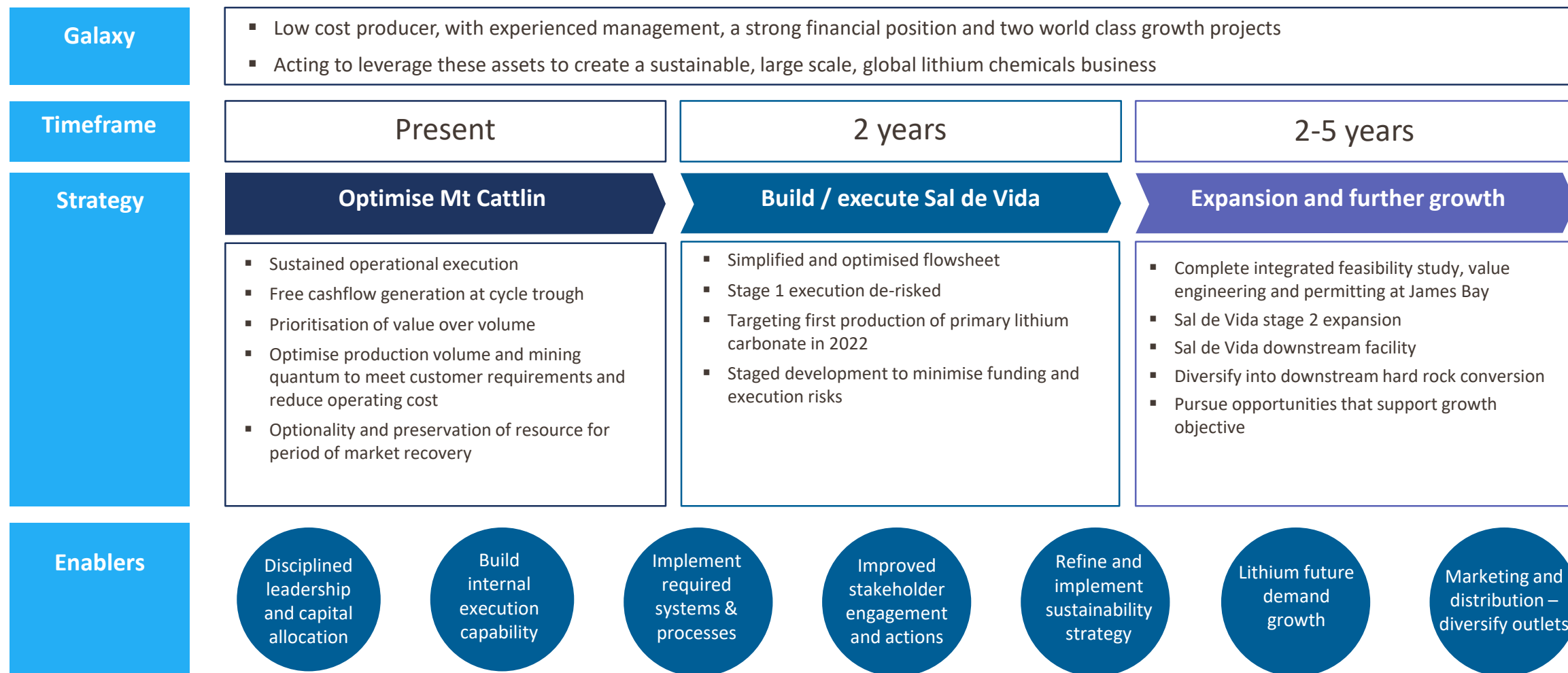
● Project office

Growth strategy



A focused and simplified growth strategy developed in 2019

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Financial Results

For the Half Year ended 30 June 2020

Mt Cattlin production and sales



A market-driven strategy in 2020 to adapt to soft market conditions

	Units	June HY 2019	Dec HY 2019	June HY 2020
Mining				
Total material mined	bcm	2,347,045	2,278,299	650,547
Ore mined	wmt	817,119	972,930	417,992
Grade of ore mined	%	1.20	1.27	1.06
Processing				
Ore processed	wmt	836,695	858,674	478,960
Grade of ore processed	%	1.28	1.19	1.04
Mass yield	%	12	11	10
Recovery	%	55	56	55
Concentrate produced	dmt	98,334	93,236	45,248
Grade of concentrate produced	%	5.9	6.0	6.0
Sales				
Concentrate sold	dmt	44,630	88,057	58,541
Concentrate sold – grade	%	5.8	6.0	5.9
Selling price, Cost of sales and Production costs				
Realised Selling price ⁽¹⁾	US\$ / dmt	627	472	398
Cost of sales per tonne sold ⁽²⁾	US\$ / dmt	760	533	405
Gross margin ⁽³⁾	US\$ / dmt	(133)	(61)	(7)
Cash cost per tonne produced	US\$ / dmt	387	396	469

- Lower operational settings for 2020 with the mine and plant operating at ~50% of capacity
 - Mining and processing operations re-commenced sequentially from mid-February after a planned summer outage
 - Front-end ore sorters were commissioned and a new mining contractor mobilised to site
 - Galaxy remains on track to meet key operating targets in the mine and processing plan for 2020
 - Weak lithium demand continues to prevail in the lithium sector, and controlling costs remains a key focus for Galaxy
-
- COVID-19 exacerbated existing weak market conditions and placed further downward pressure on lithium prices and sales volumes
 - 58,541 dmt of spodumene concentrate was shipped, excluding 15,758 dmt sold in 2019 and shipped in H1 2020 at the election of the customer
 - Unit costs increased in H1 2020 due to lower operational settings
 - 49,463 dmt of final inventory available at hand on 30 June 2020, down from 65,000 dmt at 31 December 2019
 - A multi-year offtake extension was executed with a long term, major customer

Notes:

Galaxy Resources Limited (ASX:GXY) 1. Realised Selling price per tonne of Concentrate Sold is the FOB Esperance price including revenue from shipping activities.
2. Cost of sales per tonne sold is calculated by taking total cost of sales divided by tonnes of Concentrate Sold.

3. Gross margin per tonne of Concentrate Sold is calculated as Realised Selling price less cost of sales per tonne sold. It is a non-IFRS measure that has been included to assist investors to better understand the performance of the business, and where included in this report, has not been subject to audit.

Non-cash write downs and impairment



Accounting standards required non-cash write downs and impairment solely due to current subdued prices

Key Balance Sheet Write Down Amounts

Mt Cattlin	Units	June HY 2020
Inventory write down	US\$'000	10,813
Property, Plant and Equipment	US\$'000	10,691
Right of Use Assets	US\$'000	3,492
TOTAL	US\$'000	24,996

Inventory

Due to current weakness in spodumene price, the net realisable value of inventory for sale is less than total cost of goods sold to be expensed (cash and non-cash) when sold. Therefore the carrying value has been written down to net realisable value

Property, Plant and Equipment ("PP&E")

Impairment of plant & equipment including mine development expenditure.
Mine development expenditure at Mt Cattlin represents the difference between the consideration paid under the General Mining acquisition in 2016 and the current fair value of assets acquired

Right of Use Assets

Accounting standard AASB 16 Leases results in:

- Right to use the underlying assets under lease recognised as an asset on the balance sheet
- Recognition of a liability for future lease payments

The asset arising from the lease is measured at cost and depreciated over the lease term

Profit & loss statement analysis



Weak market conditions continue to prevail the lithium sector

Profit & Loss Statement	June HY 2019 US\$ '000	June HY 2020 US\$ '000
Revenue	27,961	23,289
Cost of sales	(33,926)	(23,696)
Gross margin before inventory write down	(5,965)	(407)
Other income	9,118	1,832
Other expenses	(6,406)	(4,263)
Write Down and Impairment	(137,061)	(24,996)
Loss before income tax and net finance expenses	(140,314)	(27,834)
Finance Income	2,206	7,256
Finance expenses	(979)	(1,725)
Net (Loss) After Tax	(171,864)	(22,191)

- Revenue impacted by subdued average realised selling price and lower sales volumes arising from weak market conditions

- US\$0.4M loss from Mt Cattlin operations (before impairment and write downs) primarily due to lower sales volumes, higher costs of production and lower average realised spodumene price of US\$398/dmt

- Stockpiled ore and final product inventory written down by US\$10.8M to net realisable value (see slide 9)

- US\$14.2M impairment of property, plant and equipment and right of use assets at Mt Cattlin (see slide 9)

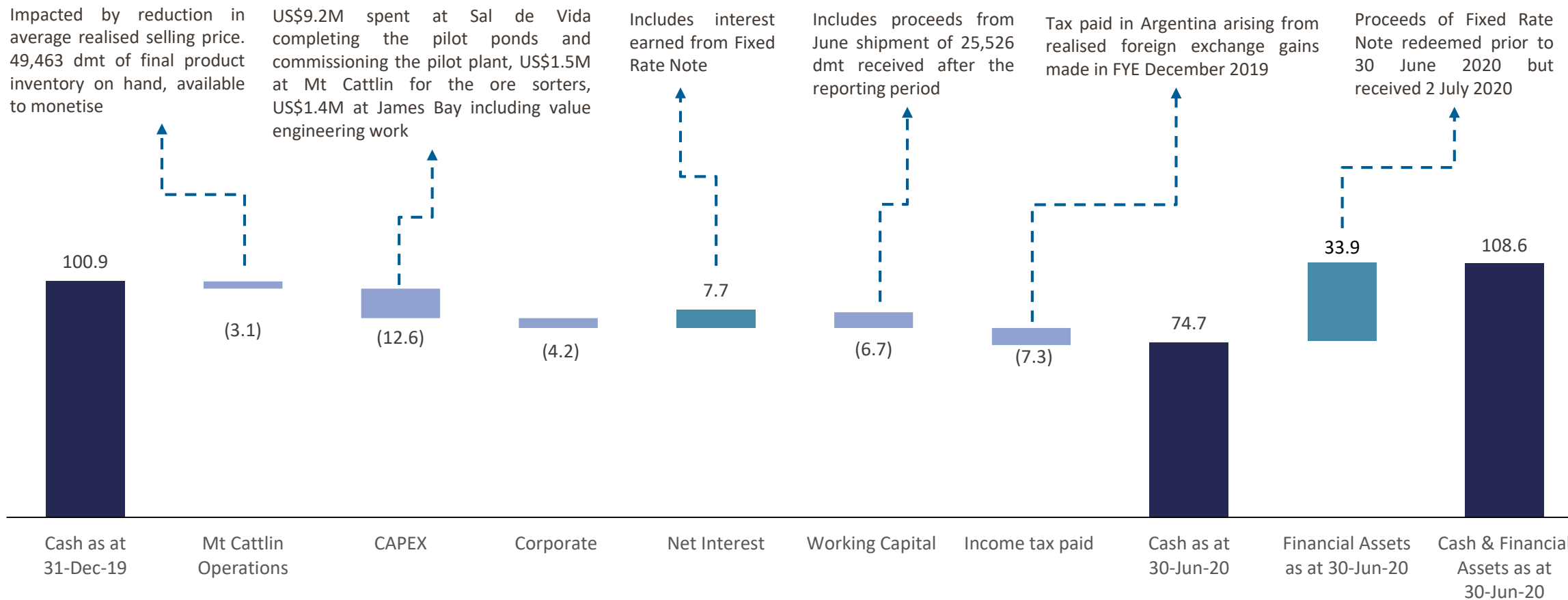
- Interest income of US\$7.3M, including US\$6.9M interest income on the fixed rate note

Cash and financial assets analysis



Strong cash position, with capital expenditure on the advancement Sal de Vida

For the period 1 January 2020 to 30 June 2020 (US\$M)



Balance sheet analysis



Robust balance sheet with cash and financial assets of US\$108.6M and nil debt

Balance Sheet	As at 31-Dec 2019 US\$ '000	As at 30-Jun-2020 US\$ '000
Cash and cash equivalents	100,907	74,693
Financial assets	36,812	31,402
Receivables	10,801	15,942
Inventories	27,752	16,967
Other current assets	1,660	864
Total Current Assets	177,932	139,868
Financial assets	5,514	2,463
Property, plant and equipment	33,728	26,258
Right of use assets	8,402	4,784
Exploration and evaluation assets	88,517	94,292
Other non-current assets	2,003	2,231
Total Non-Current Assets	138,164	130,028
Total Assets	316,096	269,896
Trade and other payables	24,867	22,040
Lease liabilities	6,572	7,116
Provisions	6,922	6,632
Income tax payable	14,022	-
Total Current Liabilities	52,383	35,788
Lease liabilities	18,205	14,745
Provisions	4,673	4,638
Total Non-Current Liabilities	22,878	19,383
Total Liabilities	75,261	55,171
Contributed equity	674,091	674,091
Reserves	(33,012)	(44,528)
Accumulated Losses	(400,244)	(414,838)
Total Equity	240,835	214,725

Fixed rate note redeemed late June 2020 with the funds received on 2 July 2020

Includes proceeds from June shipment of 25,526 dmt received after the reporting period

Final product inventory of 49,463 dmt on hand at net realisable value after write-down

PP&E and right of use assets for Mt Cattlin impaired by US\$14.2M

Outlook and key catalysts

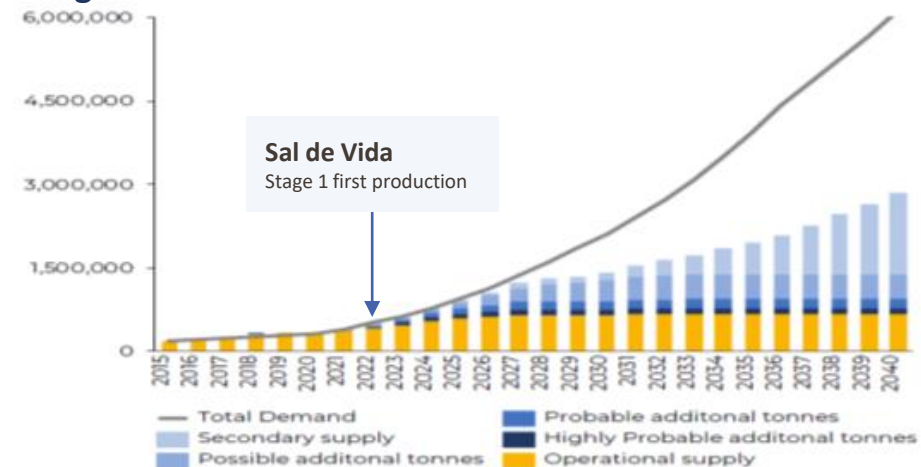
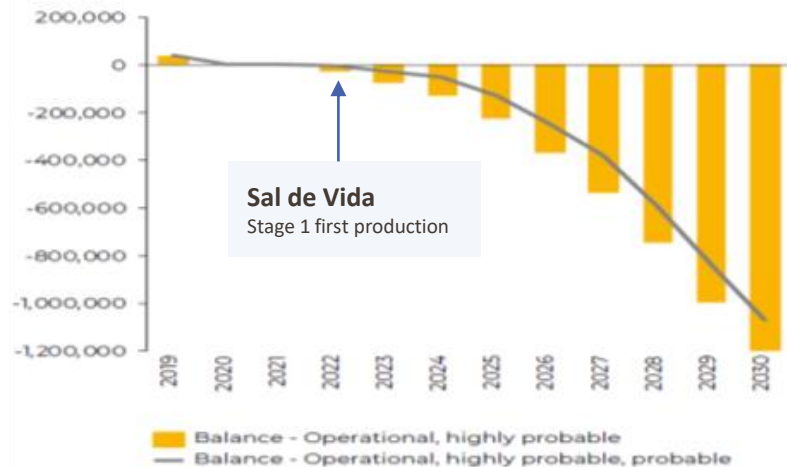
Building a sustainable, large scale, global lithium chemicals business

Lithium Market outlook

Galaxy is in a strong position to deliver Sal de Vida to the market in time for a forecast lithium demand surge

- **Short term remains challenging** due to an inventory overhang throughout the value chain and an uncertain near-term outlook for most end markets due to COVID-19. With increasing pressure on lithium prices, producers and developers are slowing or stopping new mines and expansion projects. The deferred production will exacerbate the looming structural deficit in the lithium market as shown below
- **Medium to long-term outlook remains attractive** with significant stimulus packages in both the EU and China expected to drive an electric vehicle led lithium demand surge. Automakers remain committed to electrifying their fleets and many of the majors have recently reinforced their relationships with tier 1 battery manufacturers. Additionally, converters are securing feedstock for the medium term and expanding their production capacity

A structural deficit combined with accelerated growth in lithium demand is forecast for 2022



Forecast lithium market balance LHS and demand surge versus expected supply RHS (both in lithium carbonate equivalent t)

Source: Benchmark Minerals Intelligence, Lithium Forecast Q2 2020

Sal de Vida – de-risked development approach



Staged, scalable approach to smooth capital expenditure and accelerate earnings realisation

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Stage One

Production of primary lithium carbonate

Development and technical risk further reduced:

- Simplified & optimised process flow sheet
- Superior brine chemistry enables adoption of mature technology
- Targeting initial commercialisation of primary grade lithium carbonate

Stage Two

Direct expansion of Stage 1

Duplication of Stage 1 after:

- Demonstrating successful production
- Product is accepted into the market
- Cashflow generation

Stage Three

Purification into battery grade

Attractive margins for battery grade:

- Purification to take place at an offsite location to reduce technical risk
- Can overlap with Stage 2 expansion
- Targeted capacity to match full scale output from all evaporation stages

Sal de Vida – making steady progress



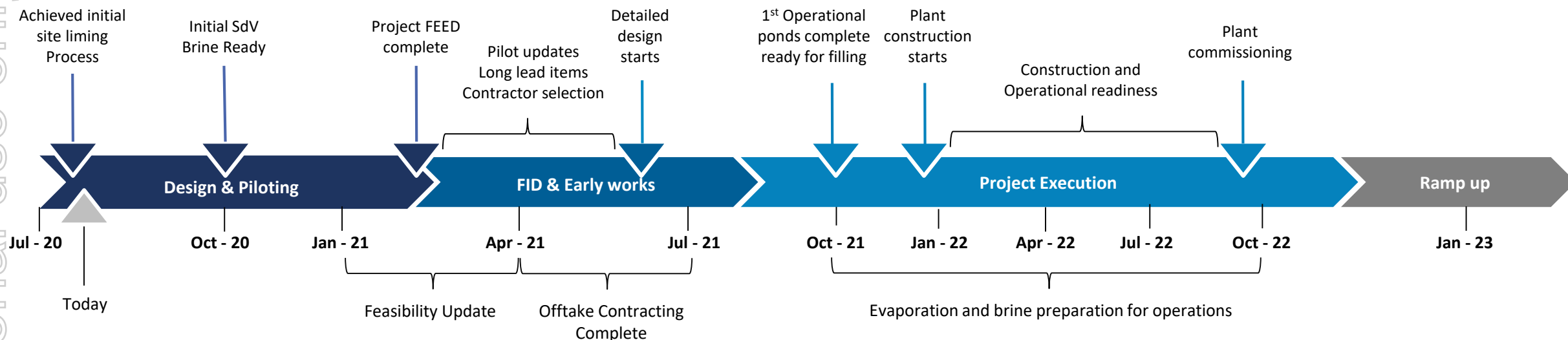
Galaxy has advanced the tier 1 project to the design phase and piloting is underway

Design Phase & Engineering	Process Development	Piloting Phase	Hydrogeology
<ul style="list-style-type: none">Wellfield and ponds (FEED 1) awarded to a tier 1 engineering company<ul style="list-style-type: none">Wellfield & pond locations selected for 1st stagePonds to be built in 2 strings to fit construction within seasonal windowsProcess design work 20% completeProcess plant and infrastructure (FEED 2) to be awarded in August<ul style="list-style-type: none">7-month schedule	<ul style="list-style-type: none">Process flowsheet confirmed through multi-staged test work program at independent metallurgical test facilityTest work yielding high quality primary lithium carbonate with grade at the upper end of expected rangePositive results on purity when using Argentinian reagentsFinal work to size & select process equipment including crystallisers	<ul style="list-style-type: none">Plant commissioned, first run successful and second run is progressing wellRemote monitoring centre established in Perth – crucial with travel restrictions in placeFirst run proved the liming operation on evaporated brineOperational readiness for softening and carbonation stepsContingency plans in place in case of travel restrictions	<ul style="list-style-type: none">Pump test completed with 30 days of continuous flowDesign production rates achievedExcellent aquifer rechargeEvaporation in line with modellingFEED is finalising wellfield layout and specifics of well parameters/specificationInitial well drilling scheduled for H2 2020 for operational brine production in H2 2021

Execution Planning



Sal de Vida has advanced to design phase and piloting is underway



FEED and Piloting

- FEED underway on wellfield & ponds
- FEED on plant and infrastructure in Q3
- Samples from piloting support offtake discussions
- Concludes with updated cost estimate and project financials

Early Works Phase

- Enables first production in late 2022
- Definition of this phase in Q1 2021
- Construction of first pond string
- Long leads, detail design and early site works
- Binding agreements with offtakers

Execution

- Fill first string of ponds with brine in late 2021
- Construction / commissioning
- Operational readiness
- First production and ramp up

James Bay – a strategically located deposit



Project definition work continues

Galaxy continues to progress the definition phase of the project, under a disciplined capital expenditure approach, to position it to take advantage of both a forecast lithium demand surge and a build-out of conversion capacity in North America and Europe

- Value engineering work completed during the half-year resulted in a significant reduction of the estimated capital and operating costs of the project
- A geotechnical work program is scheduled to optimise the site design and confirm critical assumptions from the value engineering exercise
- Work continued throughout the half-year on the Environmental and Social Impact Assessment clarification process and engagement continued with the Cree Nation
- Galaxy continues to work with various stakeholders including the Cree Nation to understand how elements of the Quebec Government's "Grand Alliance" infrastructure program can potentially be integrated into the project



Galaxy is on track to deliver Sal de Vida to the market in time for a forecast lithium demand surge

- ✓ Tier 1 asset with superior brine chemistry & extractability
- ✓ Long project life of 40+ years
- ✓ De-risked development strategy
- ✓ Mature technology & competitive cost position
- ✓ Strong community support & government relations
- ✓ Experienced management & localised workforce
- ✓ Robust balance sheet