

# Galaxy Resources Limited: Quarterly Activities Report For The Period Ended 30 June 2010

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Perth, Australia (ABN Newswire) - Galaxy Resources Limited (ASX: GXY) (PINK:GALXF) is pleased to release quarterly report for the period ended 30 June 2010.

## Corporate

### Creat Equity Raising Finalised

The Company finalised the issue of 31,000,000 shares to Creat Resource Holdings Limited (CRHL) in April 2010 raising A\$27.28 million AUD. CRHL currently owns 19.99% of the Company.

### Appointment of Director

Subsequent to the quarter, the Company appointed Mr Ivo Polovineo as an Independent Non Executive Director, effective 20 July 2010. Mr Polovineo was previously Chief Financial Officer and Company Secretary for Sino Gold Mining Limited, formerly an ASX 100 company.

Mr Polovineo was with Sino Gold for 12 years forming part of the executive team that built the company from a market capitalisation of A\$100m before it was acquired by Eldorado Gold Corporation (TSE:ELD) (NYSE:EGO) in December 2009 for approximately \$2.4 billion. Given Sino Gold developed and operated three gold mining operations in the Peoples Republic of China, Mr Polovineo is highly familiar with the cultural requirements for an Australian company doing business in China.

Mr Polovineo is a Professional Member of National Institute of Accountants (PNA) with more than 30 years experience as a CFO and Company Secretary including over 20 years in the resources sector.

### Project Finance from RZB and CDB

In December 2009, Galaxy announced that it had executed a project loan facility of A\$130 million (US\$ 105 million) from Austrian Bank, RZB and the China Development Bank.

The Company received the first drawdown commitment of US\$20 million from RZB, to allow the loan documentation process to commence.

During this process, various conditions precedent imposed by the lenders and slower than anticipated PRC project approvals resulted in a minor delay in Galaxy accessing the second debt facility drawdown.

One of the conditions precedent requirements was related to obtaining a construction permit for the Jiangsu Lithium Carbonate Project from the local Zhangjiagang (ZJG) authorities.

As there were several permitting approvals required before the final construction permit could be awarded, this particular condition precedent was not satisfied until June 2010.

The construction permit for the Jiangsu Lithium Carbonate Plant was received from the ZJG authorities on 4 June 2010. This has allowed the loan facility documentation to move towards completion and triggered the PRC regulatory approvals for the release of funds.

Galaxy remains confident of receiving the second and final drawdowns in September 2010.

Galaxy raised a total of A\$93 million (net of fees) through a A\$60 million equity placement to institutional investors in October 2009 and the A\$33 million Creat Resources Holding Limited (CRHL) placement earlier this year.

Arrangements are also in place for an advance drawdown from one of the lenders in early August in

anticipation of completing all necessary formalities for the final debt facility drawdowns in September.

The Company will continue to use these funds to support the construction of both projects until the loan drawdown is finalised.

### **Mt Cattlin Commences Ore Mining**

On 17 June 2010, it was announced that the Company has commenced extracting ore from the Dowling Pit after a four month pre-strip mining program at its Mt Cattlin Spodumene Project.

The first shallow pegmatite ore has been exposed in the east of Pit 1A, and pre-strip mining of Pits 1A and 1B is continuing.

#### **Construction Progress**

The mining contractor, Orionstone, has progressed well with the Dowling Pit pre-strip with the mining rate reaching the target level. Most of the waste material excavated to date has been used in the construction of the tailings dam wall which was completed at the end of the quarter by local earthmoving contractor, PM&J Contracting. The drill and blast contractor TDS mobilised during the quarter and now has three blasthole rigs working in the fresh rock which overlies the pegmatite ore bodies. First ore has been delivered to the ROM pad and further quantities will be exposed and delivered ready for commissioning of the process plant in the third quarter.

Local contractor R&L Constructions completed the construction of the administration office complex and the workshop office complex early in the quarter and these have now been occupied by Galaxy staff, employees and contractors.

Recruitment of the permanent workforce was completed by the end of the quarter and these employees are now undergoing an extensive training program so as to be operationally ready when commissioning of the process plant commences.

Construction of the 5MW diesel fired power station was completed by Contract Power Group and is expected to begin providing site power early in the third quarter.

The site laboratory which is to be operated under contract by SGS Laboratories was also completed and has been commissioned ready for the start up of the process plant. The two SMP contractors working on site have made good progress with the construction of the crushing circuit and the wet processing plant with remaining work comprising mostly piping. Work has also commenced on the installation of the borefield pumps and piping.

The site electrical and instrumentation construction package was awarded to Southern Cross Electrical Engineers who commenced work during May and have now completed installation of the switchboards in the two motor control centres. Significant progress has also been made with installation of buried services, cable ladders and lighting.

The Mt Cattlin project is currently on schedule and on budget. It is approximately 85% complete and the Company expects to commence commissioning by the end of quarter three 2010 as planned.

#### **Geological Activities**

##### **Excellent Drill Intercepts**

In June 2010, the Company announced the results for the second phase of an RC drilling program completed earlier this year at the Mt Cattlin Spodumene Project.

The program was aimed at upgrading and extending the existing resource base. Results for Phase 1 included excellent intercepts from the North West Zone and were reported by Galaxy in an ASX release on 14 April 2010.

The results for Phase 2 show additional outstanding intercepts from the North West Zone and also from the Dowling Pit area in the north west of the current resource. These results support the potential to extend the open pit in this area to a depth of more than 100m and to possibly include a portion of the North West Zone in the open pit.

Results from a diamond drilling program aimed at providing further geological, metallurgical and geotechnical information have also been received and include high grade intercepts of 18.3m @ 2.60% Li O and 568ppm

Ta O in GXD017.

### **North West Zone**

The North West zone of lithium-bearing pegmatite mineralisation was discovered late in 2009. The recent RC drilling program in this area has in-filled collar spacing to 80m x 80m, in order to define additional inferred resources. All assay results have now been received for the latest phase of drilling, and include outstanding intercepts such as 20m @ 1.15% Li O in GX1108, 12m @ 1.64% Li O in GX1103 and 12m @ 1.41% Li O in 2 2 2 GX1106. Significant intercepts from the North West zone received previously and reported on 14 April 2010 include 16m @ 1.52% Li O and 9m @ 2.41% Li O. 2 2 Recent drilling supports the geological model for the area. Further compilation and modelling of results is underway in order to produce an updated resource estimate incorporating the latest drilling.

### **North West Dowling Pit**

Infill drilling to 40m x 40m was completed in the north west of the proposed Dowling Pit, adjacent to the North West Zone but to the east of a Proterozoic dolerite dyke. Results include thick, high grade intercepts such as 26m @ 1.61% Li O in GX1114 and 20m @ 2 1.49% Li O in GX1113. Additional North West zone resources could potentially be mined 2 from underground. Preliminary studies indicate that mining of this zone via a decline at the base of the Dowling Pit would be economic.

### **Diamond Drilling**

A diamond drilling program aimed at providing further geological, metallurgical and geotechnical information from the Dowling Pit area was completed earlier this year. Several outstanding, high grade intersections were returned, including 18.3m @ 2.60% Li O and 568ppm Ta O in GXD017. Further metallurgical testwork on this core is now in 2 2 5 progress.

### **Grade Control**

Two phases of grade control drilling have now been completed over the Stage 1A Pit and assay results received. These have confirmed the resource model tonnage and grade in the area drilled.

### **Shoemaker Joint Venture (50% Galaxy Interest)**

General Mining Corporation Limited (GMM) (ASX: GMM) announced that the exploration team assisted by Coffey Mining's (ASX: COF) consultants carried out field mapping and sampling to follow up on historical surface sampling that demonstrated the presence of high-grade, low impurity iron ore. The technical overview by Coffey Mining in February 2010 concluded that the Shoemaker project had good potential for iron-ore mineralisation in both the bedded and taconite styles in banded iron-formation and some potential for near surface DSO hematite mineralisation within the Frere Formation.

The Company announced that it had been included in the world's first lithium focused Exchange Traded Fund (ETF). The fund, launched by New York based investment manager Global X Funds, is the first fund of its kind that provides investors with an opportunity to gain exposure to the fast growing lithium sector. The basket of lithium-related equities included in the fund gives investors access to the complete lithium value chain, from mining and refining through to lithium battery production. Galaxy's inclusion makes sense given the Company's commitment to creating value further down the lithium supply chain. The Company is now producing ore from our mine and making strong progress on the construction of our downstream processing facility which will produce lithium carbonate to sell as high grade feedstock for battery producers. The Company believes that the first ETF was a positive development for the entire sector as it provides recognition of lithium's growing appeal as an investment opportunity.

### **Jiangsu lithium Carbonate Project**

#### **Construction Permit**

On 4 June 2010, the Company received the Construction Permit for the Jiangsu Lithium Carbonate Plant from the Zhangjiagang (ZJG) authorities.

The permit was granted by the Jiangsu Province Administration Bureau for Industry and Commerce and

represents the final key milestone of the approvals process for the Company's lithium carbonate project.

## **Construction Progress**

### **Project Management**

During the quarter, significant work was completed in redeveloping the project schedule and capital cost estimate to include the new purification process route. These were critically reviewed during the Project Risk Workshop held on 16/17 June and the revised project schedule and budget are due for release during July.

### **Engineering**

The process flowsheet has been revised to incorporate the new purification route and its effect on the remainder of the plant. Testwork for the new process route has also been completed and the results incorporated into the process flowsheet. Equipment sizing calculations for the new equipment have progressed.

The site layout has been changed to incorporate the new process route and is nearing completion. Building foundation and structure designs were completed during the quarter and are ready for submission for statutory review.

### **Procurement**

During the quarter, orders were placed for kilns, rotary coolers, product dryers, ball mill, centrifuges, crystalliser, microniser, tanks and bins, air compressors, cooling towers and wet process installation. To date, approximately 51% of the project capital has been committed.

### **Construction**

Construction works during the quarter have focused on completion of road and hardstand subbases, construction of concrete surfaces to roads and hardstands, along with stormwater drainage systems. These works are now well progressed. Building foundation preparation also commenced during the quarter.

### **Marketing**

#### **Off Take Arrangements**

During the quarter, the Company announced that it had executed agreements with 13 major Chinese lithium cathode producers for the offtake of its battery grade lithium carbonate product.

When coupled with the sales agreement with Mitsubishi Corporation (TYO: 8058) (PINK: MSBHY), the commercially confidential offtake agreements signed now equate to 100 per cent of Galaxy's 17,000 tonnes of lithium carbonate production per annum and involve the supply of battery grade product commencing in 2011.

Securing offtake customers for all of the total output confirmed the quality of the project and Galaxy's ability to capitalise on the future demand within the lithium market.

The Company is pleased to have secured major Chinese lithium cathode producers as the foundation customers of lithium carbonate produced at our Jiangsu Plant.

Almost all of the lithium cathode producers Galaxy has engaged with are significantly increasing capacity in the coming 12 to 24 months and by signing up for our product, these foundation customers are acknowledging the strength of the Galaxy project, particularly as it provides security of supply for battery grade lithium carbonate needed to underpin their expansion plans.

Galaxy's strategic objective is to produce the highest battery grade product in a new era of lithium carbonate demand.

The Company remains well placed to capitalise on its first mover advantage in the lithium carbonate market, the highest growth sector of all the lithium products.

## **Lithium Market Update**

Since Galaxy announced the signing of offtake agreements for 100% of its lithium carbonate output in April 2010, the lithium market has continued to develop.

The agreements, signed with the major Chinese cathode producers and Japan's Mitsubishi Corporation, lock in the future growth potential of the Asian battery grade lithium carbonate market for the next five years.

Mitsubishi is a Joint Venture partner in Lithium Energy Japan (LEJ) which is producing the lithium batteries for Mitsubishi Motors' electric car, i-MiEV. LEJ has commenced expansion plans to increase capacity from 0.2m cells per annum to 4.4m cells per annum by 2012.

In a further signal of the growth of the electric vehicle market, EVs have been the focus of every major auto show throughout the world over the past year with all major manufacturers displaying their electric cars with plans to launch these commercially within the next two years.

Tesla Motors (NASDAQ:TSLA) also listed on the NASDAQ in June as one of the first fully electric car makers and was one of the very few successful IPOs in the current climate.

One of the most promising and immediate growth areas for lithium batteries is in E-bikes.

China controls approximately 98% of the global E-bike market, producing approximately 27 million E-bikes annually, 90 per cent of which use lead-acid batteries.

However, as the price of lithium batteries decreases and the Chinese Government implements policies mandating E-bikes be lighter, Galaxy believes that lithium batteries will soon be preferred, resulting in exponential growth in the short to medium term.

## **Supply & Demand**

The demand for lithium carbonate in the first half of 2010 has returned close to the pre GFC period and may marginally exceed it by the end of the year. The lithium carbonate price reduction implemented by SQM from the beginning of this year has increased its use, particularly in the glass and ceramics sector which is a price sensitive market. However, the battery grade lithium carbonate that Galaxy will produce secures a premium over the standard technical grade product.

Galaxy conducted various marketing trips throughout the period within the Far East and Asian region to potential cathode makers. Galaxy's project is designed to be the most modern, highly automated and computer controlled processing plant in the world, which will be the foundation of its success as one of the main requirements by customers is a secure and consistent supply of high quality product.

Galaxy also attended and presented at various major lithium specific conferences in this period including Lithium Supply & Markets during January 2010 in Las Vegas, CIBF China in June 2010 and other similar seminars in China.

## **CIBF 2010**

Held in Shenzhen City during June 2010, the China International Battery Forum (CIBF) is organised by the China Industrial Association of Power Sources and supported by Office of Energy-saving and New Energy Vehicles Project.

CIBF is one of the largest conferences in China, catering to the complete lithium supply chain, from raw material supplier, to cathode and battery producers and vehicle suppliers. More than 100 companies from China and overseas exhibited, and several highly regarded industry professionals from China, Japan, the US and Europe presented technical papers over the four day conference.

Galaxy presented in the business seminar segment and had an exhibition booth on display. The conference provided an excellent opportunity to network with the major lithium cathode and battery players in China and to raise the profile of the Company. Most of these companies were impressed with the speed at which Galaxy is progressing towards commissioning both the projects simultaneously.

## **Marketing**

Galaxy commenced discussions with one of the largest logistics and warehousing companies in China to

identify the most competitive logistics solutions for delivery of the product to customers. Various warehouses in Tianjin and Changsha were identified and inspected. The Company is in the process of finalising the warehousing and logistics service provider by next quarter.

The Company has also identified and signed supply agreements for the sale of its by-product, Alumino silicate sand (lithium slag) to cement and brick making companies near the Jiangsu site.

In addition, the Company is in advanced stages of negotiations with buyers of another by-product, Sodium Sulphate Anhydrous in China.

The Company has commenced evaluating the economic benefits of separating mica from the spodumene at its Mt Cattlin operations. Initial studies highlighted the potential to market mica in niche markets with reasonable margins. Further metallurgical and processing test work will be conducted after commissioning of the spodumene processing plant.

### **Mt Cattlin Rates Highest in Signumbox Index**

In May 2010, research company, Signumbox issued lithium sector analysis entitled 'Lithium, Batteries and Trends - Perspectives and Trends'. In the report, the company analysed the various new brine and hard rock lithium projects around the world and compared them in a quantitative and objective method. Signumbox developed two indexes for each project (General Index and Geophysical Index) which measure the most relevant characteristics of the project.

The General Index was built with the objective of measuring basic project characteristics. The parameters included are: property of the project; percentage of ownership; project stage; environmental permits; other permits; political risks; infrastructure; and commercial agreements amongst others.

The Geophysical Index was constructed for each project with the objective of measuring the specific characteristics of the project. The parameters included are: location; surface; type of resource; Li concentration; amount of resources; and existence of co-products.

Each index ranges from 1 to 5 (1 being the lowest and 5 being the highest). Both indexes were calculated separating those projects that are based on pegmatites or minerals and from those based on brines.

The following figure (see link at the bottom) shows Galaxy's Mt Cattlin Project against the 20 different hard rock and mineral lithium projects in development.

According to Signumbox, Galaxy Resources (the Green Group), and its Mt. Cattlin project obtained the highest qualification in both indexes within the projects studied (including brine projects).

For the complete Galaxy Resources announcement including figures and tables, please view the following link:

<http://www.abnnewswire.net/media/en/docs/63435-ASX-GXY-499509.pdf>

### **About Galaxy Resources Limited:**

Galaxy Resources (ASX: GXY) is an emerging mining and chemical company focusing on lithium and tantalum production. Galaxy is at an advanced stage of developing its Mt Cattlin Lithium Project (hard rock spodumene) in Ravensthorpe, Western Australia. The Project encompasses a mine and minerals plant which will produce 137,000 tpa of 6% Li<sub>2</sub>O spodumene concentrate. Galaxy intends to add value to the Mt Cattlin Project by establishing its own downstream lithium processing facilities in China.

The Company is finalising plans to establish a lithium carbonate chemical facility in Jiangsu Province, producing 17,000 tpa of lithium carbonate.

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