

# VALENCE INDUSTRIES LIMITED

ACN 008 101 979

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## NOTICE OF GENERAL MEETING

Including

**CHAIRMAN'S LETTER**

**EXPLANATORY NOTES**

**& PROXY FORM**

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**Date of Meeting**

19 February 2015

**Time of Meeting**

10:30 am (Adelaide time)

**Place of Meeting**

Grant Thornton  
Level 1, 67 Greenhill Road  
Wayville South Australia

CHAIRMAN'S LETTER

12 January 2015

Dear Shareholder

I am taking this opportunity to elaborate on the reasons for holding this particular Shareholder Meeting. At the recent Annual General Meeting we belatedly withdrew several motions pertaining to planned incentives for Board and Executives on the good advice of several of our shareholders, following which, we undertook a constructive review and developed outcomes.

This year, Valence is embarking on a challenging program to establish a new company of world class standing in the field of Advanced Manufacturing. This is the year for launching a substantially refurbished processing plant, building a second "hi tech" and much larger plant and selling output of much more than commodity style graphite into markets demanding sophisticated products for their sophisticated needs.

Additionally we will be seeking to establish new and expanded mine sites to provide the raw material for our Advanced Manufacturing enterprise. This will necessitate further approvals in the fields of water conservation and environment as we pursue our goal of expanding our mining reserves.

To achieve these goals we need to develop an excellent team and practise excellent teamwork, strong leadership and diligence at all levels. With that in mind, we will establish incentives to both encourage and reward specific achievements based directly on sensibly stringent budgets, in clearly defined areas of endeavour.

I am highlighting this point to ensure a clear understanding that the incentives referred to in the attached agenda are not just for directors looking after themselves.

The motions we ask you to consider as shareholders, while a legal necessity in considering allocation to any director, we are asking you to approve and support the spirit and intent of incentivisation, as such, and to understand that we sincerely and with wisdom will recognise the value of our team not specifically listed in the motions.

Please read the Explanation Notes accordingly.

Sincerely



Graham Spurling  
Chairman

VALENCE INDUSTRIES LIMITED  
ACN 008 101 979

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of the Shareholders of Valence Industries Ltd ("Valence Industries") will be held at the offices of Grant Thornton, Level 1, 67 Greenhill Road, Wayville, South Australia on Thursday 19 February 2015 at 10:30 am (Adelaide time).

The business to be considered at the General Meeting is set out below.

You should read:

- all of This Notice of Meeting; and
- all of the accompanying Explanatory Memorandum.

The Explanatory Memorandum forms part of this Notice of Meeting and it contains information in relation to the Resolutions which are set out below in this Notice of Meeting.

If you are in any doubt as to how you should vote on the Resolutions set out in this Notice of Meeting, you should consult your financial or other professional adviser.

The Glossary at the end of the Explanatory Memorandum defines the meaning of any of the capitalised words which are used in the Notice of Meeting.

**SPECIAL BUSINESS – ORDINARY RESOLUTIONS**

**Resolution 1 – Approval of issue of Managing Director Options to Mr Christopher Darby**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*"That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and all other purposes, approval is given for Valence Industries to issue up to 4,000,000 Managing Director Options with KPI Based vesting conditions and an exercise price of \$1.10 to Mr Christopher Darby (or his nominee) under the Valence Industries Limited Performance Rights and Options Plan."*

The voting exclusions and voting restrictions applicable to Resolution 1 are set out below.

**Resolution 2 – Re-election of Mr Ian Pattison as Director**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*"That, Mr Ian Pattison, being a Director of Valence Industries who voluntarily retires as a Director at the Meeting and, being eligible, offers himself for re-election, be elected as a Director of Valence Industries."*

There are no voting exclusions or voting restrictions applicable to Resolution 2.

**Resolution 3– Approval of issue of Director Options to Mr Graham Spurling**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*"That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and all other purposes, approval is given for Valence Industries to issue up to 500,000 Director Options with an exercise price of \$1.10 to Mr Graham Spurling (or his nominee) under the Valence Industries Limited Performance Rights and Options Plan."*

The voting exclusions and voting restrictions applicable to Resolution 3 are set out below.

#### **Resolution 4 – Approval of issue of Director Options to Mr Glenister Lamont**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and all other purposes, approval is given for Valence Industries to issue up to 500,000 Director Options with an exercise price of \$1.10 to Mr Glenister Lamont (or his nominee) under the Valence Industries Limited Performance Rights and Options Plan.”*

The voting exclusions and voting restrictions applicable to Resolution 4 are set out below.

#### **Resolution 5 – Approval of issue of Director Options to Mr Ian Schache**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*“That, for the purposes of section 195(4) and section 208 of the Corporations Act, ASX Listing Rule 10.14 and all other purposes, approval is given for Valence Industries to issue up to 500,000 Director Options with an exercise price of \$1.10 to Mr Ian Schache (or his nominee) under the Valence Industries Limited Performance Rights and Options Plan.”*

The voting exclusions and voting restrictions applicable to Resolution 5 are set out below.

#### **Voting exclusions and voting restriction in relation to Resolutions 1, 3, 4 and 5**

In accordance with the ASX Listing Rules, Valence Industries will disregard any votes cast on Resolutions 1, 3, 4 and 5:

- by Mr Darby, Mr Spurling, Mr Schache or Mr Lamont;
- any associates of Mr Darby, Mr Spurling, Mr Schache or Mr Lamont; or

any Director of Valence Industries who is eligible to participate in the Performance Rights and Options Plan in respect of which the approval is sought.

However, Valence Industries need not disregard a vote if:

- a) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- b) it is cast by the person chairing the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Further, in accordance with the Corporations Act, a vote must not be cast on these Resolutions (and will be taken not to have been cast if cast contrary to this restriction) by any Key Management Personnel, and any Closely Related Party of such a member, acting as proxy if their appointment does not specify the way the proxy is to vote on these Resolutions. However, the member or any Closely Related Party of such a member may vote if it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on these Resolutions or by a person who is the chair of the Meeting at which these Resolutions is voted on and the appointment expressly authorises the chair to exercise the proxy even if these Resolutions are connected directly or indirectly with the remuneration of Key Management Personnel.

By order of the Board

Jaroslav (Jarek) Kopias  
Company Secretary  
Adelaide, 19 December 2014

## YOUR VOTE IS IMPORTANT

The business of the Meeting affects your Shareholding and your vote is important.

### VOTING AND PROXY

#### **Attending in Person**

A Member who is entitled to attend and cast a vote at the Meeting and who wishes to vote on the Resolutions contained in this Notice should either attend in person at the time, date and place of the Meeting set out above or appoint a proxy or proxies to attend or vote on the Member's behalf.

#### **Appointment of Proxy**

In completing the attached Proxy Form, Members must be aware that where the Chairman of the Meeting is appointed as their proxy, they will be directing the Chairman to vote in accordance with the Chairman's voting intention unless you indicate otherwise by marking the "For", "Against" or "Abstain" boxes. The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. Members should note that they are entitled to appoint the Chairman as a proxy with a direction to cast the votes contrary to the Chairman's voting intention, or to abstain from voting, on any Resolution in the Proxy Form.

Also, Members may appoint, as their proxy, a person other than the Chairman.

A proxy does not need to be a Member of Valence Industries. For the convenience of Members, a Proxy Form is enclosed. A Member who is entitled to attend and cast two or more votes is entitled to appoint two proxies. Where two proxies are appointed, each appointment may specify the proportion or number of voting rights each proxy may exercise. If the Member appoints two proxies and the appointment does not specify this proportion, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise half of the votes able to be cast by the appointing Member.

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form. In order to be valid, the Proxy Form must be received by Valence Industries at the address or facsimile number specified below, along with any power of attorney or certified copy of a power of attorney (if the Proxy Form is signed pursuant to a power of attorney), by no later than 48 hours before the Meeting (i.e., by no later than 10:30am Adelaide time on 17 February 2015):

By mail: Valence Industries Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235

By facsimile: +61 2 9287 0309

Any Proxy Forms received after 10:30am Adelaide time on 17 February 2015 will not be valid for the Meeting.

#### **Corporate Members and Appointing Representatives**

A Member who is a body corporate may appoint a representative to attend the Meeting in accordance with the Corporations Act. Representatives will be required to present documentary evidence of their appointment on the day of the Meeting.

#### **Voting by a Proxy**

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

#### **Proxy vote if appointment specifies way to vote**

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (ie as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (ie as directed); and
- if the proxy is not the chair, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (ie as directed).

***Transfer of non-chair proxy to chair in certain circumstances***

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of Valence Industries' members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
  - the proxy is not recorded as attending the meeting; or
  - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

For the purpose of determining the voting entitlements at the Meeting, the Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that Shares will be taken to be held by the registered holders of those Shares at 6:30pm Adelaide time on 17 February 2015. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

## GENERAL MEETING OF VALENCE INDUSTRIES EXPLANATORY NOTES

### INTRODUCTION

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These Explanatory Notes accompanying this Notice of General Meeting are incorporated in and comprise part of this Notice of General Meeting. The Explanatory Notes should be read in conjunction with this Notice of General Meeting.

These Explanatory Notes have been prepared to provide Shareholders with material information to enable them to make an informed decision on the business to be considered at the General Meeting of Valence Industries. The Directors recommend Shareholders read these Explanatory Notes in full before making any decision in relation to the Resolutions.

Terms defined in the Notice of General Meeting have the same meaning in these Explanatory Notes.

### GENERAL BUSINESS

#### Resolution 1: Proposed Issue of Managing Director Options to Mr Christopher Darby

##### **Background**

Mr Darby is an executive Director of Valence Industries with responsibility to the Board of Directors in relation to executive management, leadership and strategy. To incentivise Mr Darby in the growth and future performance of Valence Industries, the Board has determined to include an incentive based equity remuneration component in excess of Mr Darby's base remuneration. Mr Darby has been invited by the board of Valence Industries to participate in the PROP and to be issued with Managing Director Options if approved by Members at this Meeting.

Mr Darby has previously been issued with unlisted options and unlisted performance rights as approved at the 2013 AGM. He currently holds 500,000 unlisted options, with an exercise price of \$0.25 and expiry of 31 July 2016, that had vested following admission to ASX. Mr Darby was further issued with 687,500 performance rights that vested and were exercised upon ASX listing.

##### **Reason for approval**

ASX Listing Rule 10.14 requires shareholder approval for the issue of securities to a director an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX's opinion, such that approval should be obtained. Mr Darby is a Director of Valence Industries. Accordingly, shareholder approval is sought for the grant of up to 4,000,000 Managing Director Options to Mr Christopher Darby.

##### **Corporations Act**

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

Mr Darby is a related party of Valence Industries due to the fact that he is a director of Valence Industries. The issue of Managing Director Options constitute a "Financial Benefit" as described in the Corporations Act. Accordingly, the proposed issue of Managing Director Options to Mr Darby will constitute the provision of a financial benefit to a related party of Valence Industries.

Whilst it is the view of Valence Industries that the exception set out in section 211 of the Corporations Act does apply in the current circumstances, no quorum exists for the Directors to reach this view. Accordingly, Shareholder approval is sought for the issue of options to Mr Darby.

##### **Issue of Managing Director Options**

Pursuant to and in accordance with the requirements of section 219 of the Corporations Act and ASX Listing Rule 10.15, the following information is provided in relation to the proposed issue of Managing Director Options.

Upon approval at the General Meeting, 4,000,000 Managing Director Options will be issued to Mr Darby within 5 business days of the General Meeting, but will vest upon meeting the performance hurdles as approved by the Board.

Valence Industries will not issue the Managing Director Options later than 12 months after the General Meeting and it is anticipated the options will be issued on one date.

Valence Industries advises that there are no loans provided to Mr Darby in relation to the issue of Managing Director Options.

### Issue Price and Exercise Price

There is no issue price and consequently there are no funds raised upon issue of the Managing Director Options as they are issued for nil consideration. Each Managing Director Option issued to Mr Darby will have an exercise price of \$1.10 per Share (being a premium of 57.1% above the price at which the placement and share purchase plan shares were issued in 2014), will vest upon meeting Key Performance Indicators as listed below and will lapse on 31 July 2017.

### Key Performance Indicators

The Managing Director Options vest and become exercisable if the Key Performance Indicator hurdles are satisfied. The Key Performance Indicators relate to Mr Darby's and Valence Industries' performance during the period 19 February 2015 to 31 December 2015. Each Key Performance Indicator is independent of the other Key Performance Indicators listed in **table 1** below.

**TABLE 1 – Summary of KPIs**

KPI	Maximum number of Managing Director Options vested upon achieving KPI <sup>2</sup>	Grant date <sup>1</sup>	Expiry date
1. Share price	1,000,000	19 Feb 2015	31 Jul 2017
2. Phase II plant construction program	1,000,000	19 Feb 2015	31 Jul 2017
3. Production and sales	2,000,000	19 Feb 2015	31 Jul 2017
<b>TOTAL</b>	<b>4,000,000</b>		

<sup>1</sup> Within 5 business days of receipt of Shareholder approval.

<sup>2</sup> The vesting of Managing Director Options is tied to achieving KPI's as listed below.

1. *Share price KPI*

The vesting of Managing Director Options under this KPI is tied to achieving a Share price as follows:

Valence Industries' Share price target as detailed in **table 2** below.

The entitlement is based on the sustained market value (measurement based on closing share price) over a 5 day period between 19 February 2015 and 31 December 2015. Vesting and issue of Managing Director Options will be within 1 month of 31 December 2015.

**TABLE 2 – Share Price KPI**

Share price target over a minimum of 5 days during the measurement period <sup>1</sup>	Entitlement
\$0.90	200,000
\$1.00	200,000
\$1.10	600,000
<b>Total</b>	<b>1,000,000</b>

<sup>1</sup> Based on average of closing share price.

For example, if the largest 5 day closing average Valence share price between 19 February 2015 and 31 December 2015 was \$1.05 per Share in the 5 day period between 10 August 2015 and 14 August 2015, then Mr Darby will be entitled to 400,000 Managing Director Options.

2. *Phase II plant construction program*

The vesting of Managing Director Options under this KPI is tied to construction of Phase II in accordance with the production program approved by the Board for the period to 31 December 2015.

For example, if the plan requires planned construction outcomes by 31 December 2015 and this is achieved then Mr Darby will be entitled to 1,000,000 options.

3. *Production and sales*

The vesting of Managing Director Options under this KPI is tied to achieving budgeted production and sales in accordance with and within the corresponding budgets set by the board for the 2015/16 financial year.



- Mr Darby will be issued with 500,000 Managing Director Options upon Valence Industries achieving 80% of the budgeted production and sales for the financial year ended 30 June 2016.
- Mr Darby will be issued with a further 1,500,000 Managing Director Options upon Valence Industries achieving 100% or more of the budgeted production and sales for the financial year ended 30 June 2016.

For example, if the production sales achieved for the financial year ended 30 June 2016 is 90% of the budget set by the Board for that financial year, then Mr Darby will be entitled to 500,000 options.

Additional terms and conditions of the Managing Director Options under the PROP are detailed in Appendix 1.

The value of the Managing Director Options and the pricing methodology is set out in Appendix 2.

The relevant interests of Mr Darby in securities of Valence Industries are set out in Table 3 below:

**TABLE 3 – Current Interests in Shares and Options**

Related Party	Shares	Options <sup>1</sup>
C Darby	687,500	500,000

<sup>1</sup> Unlisted options exercisable at \$0.25 each on or before 31 July 2016.

The remuneration and emoluments from Valence Industries to Mr Darby are set out in Table 4 below:

**TABLE 4 – Remuneration Summary**

Related Party	Current Financial Year (2015) <sup>1</sup>	Previous Financial Year (2014)
C Darby	\$499,400	\$742,336

<sup>1</sup> Includes the Black Scholes Valuation of Managing Director Options of \$168,000.

In accord with his existing terms of appointment the remuneration for Mr Darby as MD & CEO is \$350,000 p.a. (inclusive of superannuation) with effect from 1 October 2014. The Board believes this remuneration suitably rewards current success achieved in progressing Valence Industries' business plan to date and reflects the key role performed by Mr Darby.

If the options granted to Mr Darby are converted to Shares, a total of 4,000,000 Shares would be issued. This will increase the number of Shares on issue from 186,681,979 to 190,681,979 (assuming that no Options are exercised and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted by 2.14% by Mr Darby.

The trading history of the Shares on ASX in the 12 months before the date of this Notice is set out in Table 5 below:

**TABLE 5 – 12 Month Share Trading History Summary**

	Price	Date
Highest	\$0.870	9 September 2014
Lowest	\$0.185	6 January 2014
Last	\$0.420	18 December 2014

Mr Darby declines to make a recommendation to Shareholders in relation to Resolution 1 due to his material personal interest in the outcome of the Resolution on the basis that he is to be issued Managing Director Options in Valence Industries should Resolution 1 be passed.

With the exception of Mr Darby, no other Director has a personal interest in the outcome of Resolution 1. The Directors (other than Mr Darby) recommend that Shareholders vote in favour of Resolution 1 for the following reasons:

- the issue of options to the Related Parties will align the interests of Mr Darby with those of Shareholders;
- the issue of the options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow Valence Industries to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to Mr Darby; and
- it is not considered that there are any significant opportunity costs to Valence Industries or benefits foregone by Valence Industries in issuing the options upon the terms proposed.

In forming their recommendations, each Director considered the experience of Mr Darby, the role and skills Mr Darby performs and brings to Valence Industries, the current market price of Shares and the current market practices when determining the number of options to be issued.

The Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of Valence Industries to pass Resolution 1.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the options to the Related Parties as approval is being obtained under ASX Listing Rule 10.14. Accordingly, the issue of options to Mr Darby will not be included in the 15% calculation of Valence Industries' annual placement capacity pursuant to ASX Listing Rule 7.1.

The Chairman of the Meeting intends to vote all undirected proxies in favour of Resolution 1.

#### **Resolution 2: Re-election of Mr Ian Pattison as Director**

Resolution 2 seeks the approval of Members to the re-election of Mr Ian Pattison as Director. Mr Pattison was appointed as a Director by the Board on 10 December 2014. Mr Pattison will voluntarily retire and offer himself for re-election by Members at the Meeting.

Mr Pattison is currently director of Luminus Systems Limited and a director of Chimaera Capital Limited and is a solicitor and chartered accountant with significant experience in capital markets having worked with Donaldson Lufkin Jenrette Inc and Greenwich based Paloma Partners LLC.

Entities in which Mr Pattison has a beneficial interest currently hold the following interests in securities in the Company:

Chimaera Capital Limited	4,590,000 Shares
Chimaera Capital Limited and Inverarey Pty Ltd	4,860,000 listed options
Chimaera Capital Limited	1,875,000 unlisted options

The Board considers that, if elected, Mr Pattison will qualify to be an independent Director of the Company.

The Directors (other than Mr Pattison) recommend Members vote in favour of Resolution 2.

The Chairman of the Meeting intends to vote all undirected proxies in favour of Resolution 2.

There are no voting exclusions or voting restrictions applicable to Resolution 2

#### **Resolution 3 to 5: Proposed Issue of Director Options to Mr Spurling, Mr Lamont and Mr Schache**

It is also proposed that the non-executive Directors of Valence Industries be issued with Director Options.

#### **Background**

Mr Graham Spurling (Chairman), Mr Glenister Lamont and Mr Ian Schache are non-executive Directors of Valence Industries with responsibility to the Board of Directors in relation to leadership and strategy. Their remuneration comprises Director's fee inclusive of all entitlements.

To acknowledge the qualifications and experience of each Director within their area of specialisation which each Director brings to Valence Industries and the desire to preserve cash, the Board has determined to include an incentive based equity remuneration component in excess of Director's fees. Mr Spurling, Mr Lamont and Mr Schache have been invited by the board of Valence Industries to participate in the Performance Rights and Options Plan (PROP) and to be issued with Director Options if approved by Members at this Meeting.

Mr Spurling, Mr Lamont and Mr Schache have previously been granted the right to receive 500,000 unlisted options each, as approved at the 2013 AGM, and those unlisted options have either lapsed or have been forfeited.

In addition to the issue of Director Options, three executives of Valence Industries will also be offered 200,000 unlisted options each with an exercise price \$1.10 and expiry of 31 July 2017 under the PROP. The unlisted options will be issued at the same time as the issue of Director Options. Shareholder approval is not required for the issue of unlisted options to these executives.

#### **Reason Approval is required**

ASX Listing Rule 10.14 requires shareholder approval for the issue of securities under an employee incentive scheme to a director or an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX's opinion, such that approval should be obtained. Mr Spurling, Mr Lamont and Mr Schache are Directors of Valence Industries. Accordingly,

shareholder approval is sought for the issue of a total of 1,500,000 Director Options to Mr Graham Spurling, Mr Glenister Lamont and Mr Ian Schache at an exercise price of \$1.10.

### Corporations Act Requirements

A summary of Chapter 2E of the Corporations Act is set out above at Resolution 1.

Mr Spurling, Mr Lamont and Mr Schache are related parties of Valence Industries due to the fact that they are directors of Valence Industries. The issue of Shares and Director Options constitutes a "Financial Benefit" as described in the Corporations Act. Accordingly, the proposed issue of Shares and Director Options to Mr Spurling, Mr Lamont and Mr Schache will constitute the provision of a financial benefit to a related party of Valence Industries.

Whilst it is the view of Valence Industries that the exception set out in section 211 of the Corporations Act does apply in the current circumstances, no quorum exists for the Directors to reach this view. Accordingly, Shareholder approval is sought for the issue of Director Options to the Related Parties.

### ASX Listing Rules

ASX Listing Rule 10.15 requires Valence Industries to provide further information in relation to the participation by Mr Spurling, Mr Lamont, Mr Schache and Mr Darby in Valence Industries' Performance Rights and Options Plan (PROP).

Under ASX Listing Rule 10.14 Mr Spurling, Mr Lamont, Mr Schache and Mr Darby were entitled to participate and have participated in the PROP as approved at the 2013 AGM as summarised in **Table 6** (below). All performance rights and unlisted options were subject to various performance conditions as outlined in the 2013 AGM explanatory notes.

**TABLE 6 – Performance Rights and Options issued to date**

Director	Unlisted Options		Unlisted Performance Rights	
	Potential Entitlement	Received or Allocated	Potential Entitlement	Received or Allocated
Graham Spurling	500,000	0	0	0
Christopher Darby	2,000,000	500,000	2,750,000	687,500
Glenister Lamont	500,000	0	0	0
Ian Schache	500,000	0	0	0

### Issue of Director Options

Upon approval at the General Meeting, 500,000 Director Options will be issued to each of Messrs Spurling, Lamont and Schache within 5 business days of the General Meeting. The Director Options will vest immediately upon issue.

Valence Industries will not issue the Director Options later than 12 months after the General Meeting.

Valence Industries advises that there are no loans provided to Messrs Spurling, Lamont and Schache in relation to the issue of Shares and Director Options.

**Table 7** summarises the Director Options which are proposed to be issued to Mr Spurling, Mr Lamont and Mr Schache.

**TABLE 7 – Proposed Director Options**

Securities	Number	Total	Issue date / vesting date	Expiry
Director Options <sup>1</sup>	500,000 – G Spurling 500,000 – G Lamont 500,000 – I Schache	1,500,000	19 February 2015	31 July 2017

<sup>1</sup> Anticipated to be within 5 business days of receipt of Shareholder approval with vesting upon issue.

### Issue Price and Exercise Price

There is no issue price and consequently there are no funds raised upon issue of the Director Options as they are issued for nil consideration. However, Each Director Option issued to Mr Spurling, Mr Lamont and Mr Schache will have an exercise price of \$1.10 per Share (being a premium of 57.1% above the price at which the placement and share purchase plan shares were issued in 2014). Each of the Director Options will vest upon issue and will lapse on 31 July 2017.

Additional terms and conditions of the Director Options under the PROP are detailed in Appendix 1.

The value of the Director Options and the pricing methodology is set out in Appendix 2.

The relevant interests of the Related Parties in securities of Valence Industries are set out in **Table 8** below:

**TABLE 8 – Current Interests in Valence Industries Shares and Options**

Related Party	Shares	Options <sup>1</sup>
G Spurling	171,429	150,000
G Lamont	89,286	50,000
I Schache	214,286	0

<sup>1</sup> Listed options exercisable at \$0.25 each on or before 31 July 2016.

The remuneration and emoluments from Valence Industries to the Related Parties for the previous financial year and the proposed remuneration and emoluments for the current financial year are set out in **Table 9** below:

**TABLE 9 – Remuneration of Non-Executive Directors**

Related Party	Current Financial Year (2015) <sup>1</sup>	Previous Financial Year (2014)
G Spurling	\$96,000	\$73,734
G Lamont	\$71,000	\$66,454
I Schache	\$71,000	\$52,554

<sup>1</sup> Includes the Black Scholes Valuation of Director Options of \$21,000 for each Director.

If the Director Options granted to the Related Parties are exercised, a total of 1,500,000 Shares would be issued. This will increase the number of Shares on issue from 186,681,979 to 188,181,979 (assuming that no other options are exercised and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 0.80%, comprising 0.27% by Mr G Spurling, 0.27% by Mr G Lamont and 0.27% by Mr I Schache.

The market price for Shares during the term of the Director Options would normally determine whether or not the Director Options are exercised. If, at any time any of the Director Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Director Options, there may be a perceived cost to Valence Industries.

The trading history of the Shares on ASX in the 12 months before the date of this is set out in Resolution 1 above.

Each of Mr G Spurling, Mr G Lamont and Mr I Schache decline to make a recommendation to Shareholders in relation to Resolutions 3, 4 and 5 insofar as that resolution relates to them due to their respective material personal interest in the outcome of the Resolution on the basis that they are each to be granted Director Options in Valence Industries should Resolutions 3, 4 and 5 be passed.

However, in respect of Resolutions 3, 4 and 5 insofar as it relates to each of the other Non-Executive Directors they each recommend that Shareholders vote in favour of that Resolution for the following reasons:

- the issue of Director Options to each of the other non-executive Directors will align the interests of those non-executive Directors with those of the other Shareholders in Valence Industries;
- the issue of the Director Options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow Valence Industries to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to the Related Parties; and
- it is not considered that there are any significant opportunity costs to Valence Industries or benefits foregone by Valence Industries in issuing the Director Options upon the terms proposed.

Mr Darby recommends that Shareholders vote in favour of Resolutions 3, 4 and 5 for the reasons set out above and acknowledges the valued and important role that each of Mr Spurling, Mr Lamont and Mr Schache have played and will continue to play in Valence Industries.

In forming their recommendations, each Director considered the experience of each other Related Party, the current market price of Shares and the current market practices when determining the number of Director Options to be issued.

The Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of Valence Industries to pass Resolutions 3 to 5.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Director Options to the Related Parties as approval is being obtained under ASX Listing Rule 10.14. Accordingly, the issue of Director Options to the Related Parties will not be included in the 15% calculation of Valence Industries' annual placement capacity pursuant to ASX Listing Rule 7.1.

The Chairman of the Meeting intends to vote all undirected proxies in favour of Resolutions 3, 4 and 5.

For personal use only

## Appendix 1

### Key terms of Director Options and Managing Director Options

Each of the options will be granted on the following terms and conditions:

- (1) Each option will entitle the holder (**Optionholder**) to subscribe for one Share (subject to possible adjustments referred to in paragraphs (9), (10) and (11) below); and
- (2) Each of those options will be exercisable during the period from the date it is granted until 5.00pm (Adelaide time) on 31 July 2017 (**Expiry Date**). options not exercised before the Expiry Date will lapse.
- (3) The exercise price of each of those options will be \$1.10 (**Exercise Price**).
- (4) Those options will be exercisable by notice in writing to Valence Industries, delivered to the registered address of Valence Industries and accompanied by the full payment of the Exercise Price in cleared funds.
- (5) Some or all of the options will be able to be exercised at any one time or times prior to the Expiry Date.
- (6) Shares issued pursuant to the exercise of any of those options will rank in all respects on equal terms with the existing Shares.
- (7) The options will be freely transferable.
- (8) The options will not entitle the Optionholder to participate in any new issue of securities by Valence Industries unless the option has been duly exercised prior to the relevant record date. Valence Industries will ensure that for the purposes of determining entitlements to participate in any new issues of securities to holders of Shares (other than a share purchase plan), that the record date will be at least six business days after the date the issue is announced.
- (9) If there is a bonus issue to the holders of Shares:
  - (a) the number of Shares over which each of the options are exercisable will be increased by the number of Shares which the holder of the option would have received if the option had been exercised before the record date for the bonus issue; and
  - (b) no change will be made to the Exercise Price.
- (10) If, prior to the Expiry Date the issued capital of Valence Industries is reorganised, the rights of the holders of the options may be varied to comply with the ASX Listing Rules which apply to the reorganisation.
- (11) If Valence Industries makes a rights issue (other than a bonus issue), the Exercise Price of the options will be reduced in accordance with the formula in the Listing Rules.

## Appendix 2

### Valuation of Director Options and Managing Director Options

Valence Industries has been listed since 6 January 2014 and there is a ready market for the Shares. The shares have traded in the range of 18.5 cents and 87 cents since listing.

Valence Industries has obtained a valuation as at 18 December 2014, which the Board has adopted, in relation to the indicative value of the options to be granted to Mr Spurling, Mr Lamont and Mr Schache.

The valuation uses the Black-Scholes Option Pricing Model and the following assumptions:

- (a) the grant date of the options is the date of this General Meeting and the value of the Shares is \$0.42 based on the closing Share price at 18 December 2014;
- (b) an exercise price of \$1.10 per option;
- (c) a calculated volatility based on Valence Industries' trading history since 6 January 2014 of 54.94%;
- (d) risk-free interest rates for the options of 2.51%;
- (e) the date of exercise as being their expiry date which is, for each option, 31 July 2017.

This valuation has provided an indicative value for each option at \$0.042 (4.2 cents). The total value of the options to be issued to Mr Spurling, Mr Lamont and Mr Schache is \$21,000 each and to Mr Darby is \$168,000.

This valuation contains no reductions for early exercise or discount for limitations on the transferability of the options. The valuation is not a representative valuation of the options at the proposed date of issue. In order for this valuation to be provided, a new valuation model would need to be run with updated assumptions at the time of issue.

## Glossary

In the Notice of General Meeting and Explanatory Notes:

**ASX** means ASX Limited (ABN 98 008 624 691).

**Board** means the board of Directors of Valence.

**Closely Related Party** has the meaning given to it in the Corporations Act and the Corporations Regulations.

**Constitution** means the constitution of Valence Industries.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Corporations Regulations** means the Corporations Regulations 2001 (Cth).

**Director** means a director of Valence Industries.

**Director Options** means unlisted options at an exercise price of \$1.10 per Share with expiry of 31 July 2017.

**Key Management Personnel** means a member of the key management personnel as disclosed in the Remuneration Report.

**Listing Rules** means the listing rules of ASX.

**Managing Director Options** means unlisted options at an exercise price of \$1.10 per Share, expiry of 31 July 2017 and subject to meeting various performance based key performance indicators.

**Meeting** or **General Meeting** means the General Meeting of Shareholders to be held at the offices of Grant Thornton at Level 1, 67 Greenhill Road, Wayville, South Australia on Thursday 19 February 2015 at 10:30 am (Adelaide time).

**Member** or **Shareholder** means each person registered as a holder of a Share.

**Notice** or **Notice of Meeting** means this Notice of General Meeting.

**Ordinary Resolution** means a resolution passed by more than 50% of the votes at a general meeting of Shareholders.

**PROP** means Performance Rights and Options Plan as approved by Shareholders at the 2013 AGM.

**Related Parties** has the same meaning as the Listing Rules.

**Resolution** means a resolution referred to in this Notice.

**Share** means a fully paid ordinary share in the capital of Valence Industries.

**Valence** or **Valence Industries** means Valence Industries Limited (ABN 41 008 101 979).



# Valence Industries Limited

ABN 41 008 101 979

## LODGE YOUR VOTE



ONLINE >

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)



### By mail:

Valence Industries Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: +61 1300 554 474



X99999999999

## PROXY FORM

I/We being a member(s) of Valence Industries Limited and entitled to attend and vote hereby appoint:

### STEP 1

### APPOINT A PROXY

☐

the Chairman  
of the Meeting  
(mark box)

OR if you are NOT appointing the Chairman of the Meeting  
as your proxy, please write the name of the person or  
body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **10:30am (Adelaide time) on Thursday, 19 February 2015 at Grant Thornton, Level 1, 67 Greenhill Road, Wayville, South Australia (the Meeting)** and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

### STEP 2

### VOTING DIRECTIONS

#### Resolution 1

Approval of issue of Managing Director Options to Mr Christopher Darby

For Against Abstain\*

☐ ☐ ☐

#### Resolution 2

Re-election of Mr Ian Pattison as Director

☐ ☐ ☐

#### Resolution 3

Approval of issue of Director Options to Mr Graham Spurling

☐ ☐ ☐

#### Resolution 4

Approval of issue of Director Options to Mr Glenister Lamont

☐ ☐ ☐

#### Resolution 5

Approval of issue of Director Options to Mr Ian Schache

☐ ☐ ☐

\* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### STEP 3

### SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

VXL PRX501A



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

### Default to Chairman of the Meeting

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted as set out in this Proxy Form.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

### Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:30am (Adelaide time) on Tuesday, 17 February 2015**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE** > [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



**by mail:**

Valence Industries Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the General Meeting, please bring this form with you.  
This will assist in registering your attendance.