



VALENCE
INDUSTRIES

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX: VXL & VXLO

QUARTER ENDING 30 JUNE 2015

Valence Industries Quarterly Activity Report



Valence Industries – Uley Graphite™ Phase I Plant Operations (2015)

Valence Industries is Australia's only graphite company. Valence Industries will mine, process and sell flake graphite products from its Uley Graphite™ facilities near Port Lincoln, South Australia for supply to global customers with an expansion program and focus on advanced high-margin product development.

Quarter Highlights

- The Phase I Plant resumed operations and is targeting nameplate feed-rate of 20 tph in September 2015.
- New US\$50m three year Sales Contract signed at prices exceeding US\$1,335 per tonne.
- Signing of major UK based Sales Agency underpinning strong demand in Europe.
- Significant increases in Ore Reserve for Uley Pit 2 extending current life of mine by more than 60%.
- Production growth strategy revised, with increased focus on higher value Advance Graphite products from 5% to 40% of total volumes.
- Increase in NPV by 38% to \$90m for Uley Graphite™ expansion.
- Finance facilities secured to support Valence Industries' current operations and growth strategy with first draw-down made after the quarter.
- Cash at end of reporting period at A\$1.6 million

V A L E N C E I N D U S T R I E S L I M I T E D

A S X : V X L & V X L O

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Released: 30 July 2015



Current Operations

PHASE I PLANT & OPERATIONS

During the quarter ended 30 June 2015, Valence Industries resumed graphite production at its Uley Graphite™ operations. The Company produced 80 tonnes of graphite to end of the quarter.

The output consist of more than 71% of larger flake graphite fractions, and is producing 33% of +50 mesh and +35 mesh. Purity levels have reached 89% and are anticipated to increase as the targeted production feed rate of 20tph is achieved in September 2015.

Since mid-June 2015, the plant has been subject to stoppages for ongoing process enhancement and calibration.



Valence Graphite Flotation

PROCESS WATER RETURN & TAILS

During the quarter Valence Industries also received approvals to implement process water storage and return systems and for a revised program for the deposit of tails. This permits further construction work across the process water ponds and the tailings storage arenas and this program of work is nearing completion.

The process water ponds are in use for current production and the upgraded tailings storage facilities are being integrated into that process. Each of these elements form a key part of the move to increase the production feed rate to 20t per hour. The construction and operation of the tailings storage facilities will form an ongoing aspect of the operations with further construction stages planned to coincide with increasing mining and production operations.



Run of Mine Feed Stockpiles



Process Water Return Ponds



ULEY PIT 2 OVERBURDEN REMOVAL COMMENCES

The removal of material at Uley Pit 2 in preparation for Phase II mining commenced during the quarter.

Uley Pit 2 will provide fresh higher average grade run-of-mine (ROM) feedstock for the existing Phase I processing plant and will also provide feedstock for future expansion. The company is currently targeting delivery of ROM feedstock from Uley Pit 2 in Q4 CY 2015 and the work during this quarter has verified that Uley Pit 2 will be free-dig and that the graphite ore bodies are present in very close proximity to the surface.

The material removed from Uley Pit 2 has been used to construct the tailings storage facilities (TSF) during the quarter.



Uley Pit 2 – Mining Overburden Removal (2015)

SIGNIFICANT INCREASE TO ORE RESERVE & RESOURCE

In May 2015, the Company advised of a substantial increase to the JORC 2012 Ore Reserve for graphite in Uley Pit 2 and Uley Pit 2 Extension. The current Ore Reserve estimate is now:

ULEY PIT 2 – ORE RESERVE UPDATE May 2015 Tonnes are expressed in dry metric tonnes (ROUNDED)			
Classification	Tonnage	Average Grade (%gC)	Contained Tonnes
Proved	340,000	17.6	59,840
Probable	2,577,000	11.4	293,778
Total Ore Reserve	2,917,000	12.1	353,618



The 43% increase to the Reserve Estimate followed a 50% upgrade to the JORC 2012 Mineral Resource estimate to Uley Pit 2:

TABLE 2: ULEY PIT 2 – JORC 2012 MINERAL RESOURCE*			
Classification	Tonnage (Mt)	Average Grade (%gC)	Contained Tonnes (Mt)
Measured	0.36	17.51	0.06
Indicated	2.75	11.39	0.31
Inferred	1.44	10.61	0.15
Totals	4.54	11.63	0.52

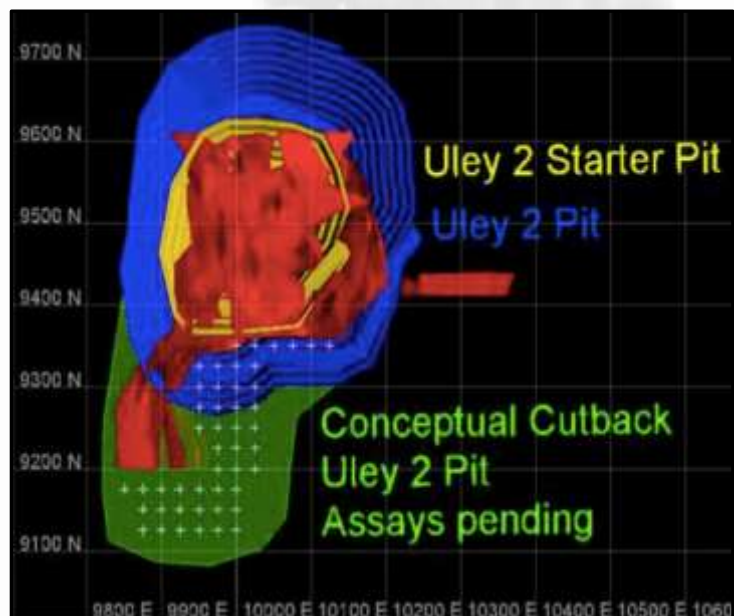
MINE LIFE EXTENDED

The increase in the JORC 2012 Ore Reserve Estimate has extended the 'life of mine' of the Uley Pit 2 by three years - or 60% - to at least eight years (based on a production rate of 64,000tpa).

An updated mine plan, together with a new pit shell for Uley Pit 2, has been established following the update to the JORC Ore Reserve.

During the reporting period, Valence Industries continued the extensional drill campaign that is focused on the Uley Pit 2 Extension – located immediately north and south of Uley Pit 2 area.

The Company reported a 43% increase in Ore reserve to 2.9 million tonnes at a grade of 12.1% graphitic



Uley Pit 2 – Indicative Pit Shells (2015)



Uley Pit 2 – Mining Overburden Removal (2015)

carbon. The upgrade was based on approximately one third of the results of the drilling program on the Uley Pit 2 Extension.

Assays from the campaign continue to confirm the high-grade graphite mineralisation and the dip, strike continuity and near surface mineralisation of the Uley Graphite lodes to the north and south of Uley Pit 2.



EXPLORATION

As Valence is classified as an exploration entity at this time additional disclosure is required. Exploration activities during the quarter relate to the resource / reserve drilling detailed in this report.

TENEMENT LISTING

TENEMENT NUMBER	TENEMENT NAME	BENEFICIAL INTEREST ¹	CHANGES DURING Q2 2015
ML 5561	Uley Graphite Mining Licence 1	100%	No change
ML 5562	Uley Graphite Mining Licence 2	100%	No change
RL 66	Uley Graphite Retention Licence 1	100%	No change
RL 67	Uley Graphite Retention Licence 2	100%	No change
EL 4778	Uley South Exploration Licence	100%	No change

¹ Interests held as at the end of the quarter

Expenditure on exploration activities during the quarter amounted to \$215,000.

Graphite Sales

NEW EUROPEAN AGENT

Valence Industries signed a new Sales Agency Contract for the sale of Uley Graphite™ into the European market during the quarter. The contract is with a UK-based company that will act as a representative for the company for the marketing and sales of specific flake graphite product lines, commencing mid-2015, for use in the energy and resources sectors through to heavy industrial engineering.

The agent (who cannot be identified due to contract confidentiality clauses) previously managed sales of Uley Graphite™ when it was in operation 25 years ago.

US\$50M SALES CONTRACT

On 21 July 2015, the Company announced an additional multi-year, multi-product Sales Contract signed with a major customer for flake graphite sales in excess of US\$50M over three years.

Graphite supplied under the new contract will be used in a range of industries including Aluminium, Steel, Metallurgical, Chemical, Refractory, Ceramics, Construction, Plastics and Rubber and Expandable Graphite Products. The new sales contract focuses on the Company's coarser flake graphite production.

The benchmark pricing under the sales contract exceeds Valence Industries' previously announced weighted average price of US\$1,335 per tonne and includes take or pay provisions on the volumes ordered.



Processed Graphite (2015)



GLOBAL GRAPHITE MARKET

The global graphite market is constantly changing and is affected by several external factors. The softening in oil prices over the past 12 months has directly led to a decline in demand for steel and subsequent refractories, the largest consumer of natural flake graphite in the world. The demand for construction related graphite product continues to grow as does the consumer electronic sector that utilizes various grades of advanced graphite products. The shift from traditional natural flake graphite grades to more advanced graphite products continues to be a focus of diversification for Valence Industries.

With the dynamic changes in the graphite market, customer negotiations and sales are predicated on qualifications and trial orders to ensure that the graphite produced meets stringent requirements. Generally, the higher the value of the graphite being sold the longer the period of qualification involved. Valence Industries has qualified production with a range of customers and secured sales contracts for the graphite products we produce. As the global market demand for graphite products continues to change, there are corresponding changes in prices across different categories of production and this has particularly been seen in the past 6 months in smaller mesh sizes (fine graphite) and on a smaller scale medium coarse grades. The production mine signature from Valence Industries indicates that the company has a lower level of fine graphite flake than previously projected and larger volumes of the higher value large mesh sizes (coarse graphite).

Finance and Corporate

SYNDICATED FINANCE FACILITIES

During the reporting period, Valence Industries signed a binding Heads of Agreement with Singapore-based Chimaera Capital Markets Pte Ltd (CCM) as lead financier to provide debt funding via a US\$75 million syndicated debt finance facility. The funds will be used for Valence Industries' expansion programs including at its existing Uley Graphite™ facilities.

The finance facilities are comprised in two parts:

- Initial Debt Facility of up to US\$20m with an initial bridge facility of A\$3M drawn after the end of the quarter.
- The ability to call on a Main Debt Facility of US\$75m for further expanded operations and which will repay the Initial Debt Facility.

Both facilities are subject to conditions precedent, which need to be satisfied or waived by the financiers.

At the end of June, Valence Industries announced that pursuant to the syndicated debt facilities agreed with CCM, it would draw down an amount of A\$3m in bridge financing, with a further A\$0.5m available. Terms of the bridge financing include an establishment fee of approximately \$200,000 with an interest rate of 12.5% per annum.

Funds from the bridge financing will provide interim funding while remaining conditions precedent for the Initial Facility are satisfied. Valence Industries continues to work closely with CCM to meet the outstanding conditions for the Initial Facility, which excludes completion of the rights issue.



UPDATED PROJECT ECONOMIC ASSESSMENT

Following the update to the reserve estimate and mine life of Uley Pit 2, Valence Industries released an update to the Uley Graphite operation valuation following financial analysis. The update to key project figures are:

• Post-tax net present value (NPV)	A\$90m
• Internal rate of return (IRR)	47%
• Total Ore Mined	2,917,000 tonnes
• Average graphite head grade	12.1%
• Life of Mine	8.3 years

The estimated project returns do not attribute any value to the company's strategy to increase production of higher value, advanced manufactured graphite products from 5% of output, as assumed in the January 2015 Feasibility Study, to 40% of total output. These returns also do not yet take into account the shift in product profile with the identification of significant quantities of very large flake during production and low levels of finer graphite produced.

PLACEMENT & RIGHTS ISSUE

During the reporting period, the company raised A\$2.1 million through a share placement to institutional, professional and sophisticated investors. The placement comprised of the issue of 7,117,665 fully paid ordinary shares at an issue price of \$0.29 per share, and was issued within the Company's 15% placement capacity. The company also carried out a renounceable rights issue of one new share for every six shares held at an issue price of \$0.29 per share which raised a further \$0.88m (shares issued on 2 July 2015).

Outlook

The end of the June quarter has capped off a significant period of development that has positioned Valence Industries as a producer of high margin, premium quality graphite following the recent resumption of production.

The September quarter has a number of milestones including:

- Graphite sales shipments to commence and increase in volume and frequency as production is progressively ramped up
- Continuation of preparatory work (including overburden removal) at Uley Pit 2 in preparation for new open pit mining of higher grade graphite ore
- Advancing negotiations with the company's financiers to satisfy conditions precedent for the Company's announced credit facilities

Valence Industries is poised to generate revenues from production sales commencing from the September quarter as graphite production is progressively ramped up to nameplate capacity.

**Capital Structure**

Shares: 196,953,714

Listed options: 57,152,418

Unlisted options: 25,250,000

Board of Directors & Officers

Graham Spurling, AM
Non-executive Chairman

Christopher S. Darby
Chief Executive Officer & MD

Glenister Lamont
Non-executive Director

Ian Pattison
Non-executive Director

Ian Schache
Non-executive Director

Jaroslav (Jarek) Kopias
Company Secretary & CFO

For further information, please contact:

Christopher S. Darby
Chief Executive Officer & MD
Valence Industries

Jaroslav (Jarek) Kopias
CFO & Company Secretary
Valence Industries

info@valenceindustries.com
+61 8 8418 8564

Media and Investor Relations

Rebecca Lawson, Media and Capital Partners
p: +61 433 216 269 e: rebecca.lawson@mcpartners.com.au

**Competent Persons Statement**

Valence Industries confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed since the announcements previously released as “Valence Doubles Existing ROM Stockpiles” (6/8/14), “Uley Graphite Grade Increases to 11.7%” (17/11/14), “Maiden High Grade Graphite Ore Reserve” (17/12/2014) “VXL Feasibility Study Expansion and Adv Manufacturing” (2/1/15), “50% Increase in Uley Graphite Resource” (5/5/15) and “Major Increase to Graphite Ore Reserve and Mine Life” (14/5/15).

Forward Looking Statements

All statements other than statements of historical fact included in this announcement including, without limitation, statements regarding future plans and objectives of Valence Industries Limited (Valence Industries) are forward-looking statements. When used in this announcement, forward-looking statements can be identified by words such as ‘may’, ‘could’, ‘believes’, ‘estimates’, ‘targets’, ‘expects’ or ‘intends’ and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Valence Industries, that could cause Valence Industries’ actual results to differ materially from the results expressed or anticipated in these statements.

Valence Industries cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Valence Industries does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this announcement, except where required by applicable law.



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Valence Industries Limited

ABN

41 008 101 979

Quarter ended ("current quarter")

30 June 2015

Consolidated statement of cash flows

		Current quarter	Year to date
		\$A'000	(12 months)
			\$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	4	4
1.2	Payments for (a) exploration & evaluation	(215)	(1,685)
	(b) development	(461)	(1,653)
	(c) production	(1,462)	(3,986)
	(d) administration	(1,321)	(4,033)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	40	275
1.5	Interest and other costs of finance paid	(3)	(3)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
		(3,418)	(11,081)
Net Operating Cash Flows			
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(789)	(7,071)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
		(789)	(7,071)
Net investing cash flows			
1.13	Total operating and investing cash flows (carried forward)	(4,207)	(18,152)



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(4,207)	(18,152)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	2,095	14,880
	Proceeds from subscriptions received	879	879
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(5)	(20)
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	(212)	(1,142)
	Other (movement in restricted cash – bond)	-	(1,709)
	Net financing cash flows	2,757	12,888
	Net increase (decrease) in cash held	(1,450)	(5,264)
1.20	Cash at beginning of quarter/year to date	3,039	6,853
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,589	1,589

Note: Cash balance excludes \$1.709 million held against a bank guarantee for obligations under the approved PEPR for Uley Graphite™ operations which is treated as Restricted Cash in the Company's financial statements.

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	137
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' fees, superannuation and consulting fees paid to entities associated with Directors.	

Non-cash financing and investing activities

2.1	Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
	Nil
2.2	Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
	Nil



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	400
4.2 Development	5,000
4.3 Production	2,500
4.4 Administration	1,500
Total	9,400

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,589	3,039
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	-	-
Total: cash at end of quarter (item 1.22)	1,589	3,039

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	Not applicable		
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Not applicable		



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities VXL/VXLAI	193,921,277	161,104,635		
7.4	Changes during quarter (a) Increases through issues - Placement - Options exercised (b) Decreases through returns of capital, buy-backs	7,117,665 121,633	7,117,665 121,633	29.00 cents 25.00 cents	29.00 cents 25.00 cents
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				



7.7	Options (description and conversion factor) VXLO/VXLAK			<i>Exercise price</i>	<i>Expiry date</i>
	VXLAM	71,886,392	55,636,392	25.00 cents	31 July 16
	VXLAP	3,500,000 (vested)	-	25.00 cents	31 July 16
	VXLAP	4,000,000 (unvested)	-	110.00 cents	31 July 17 (KPI based)
	VXLAP	1,500,000 (vested)	-	110.00 cents	31 July 17
7.8	Issued during quarter	3,558,837	3,558,837	25.00 cents	31 July 16
7.9	Exercised during quarter	121,633	121,633	25.00 cents	31 July 16
7.10	Expired during quarter				
7.11	Debentures (totals only)	-	-		
7.12	Unsecured notes (totals only)	-	-		



Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: _____ Date: 30 July 2015

Company secretary

Print name: Jaroslaw (Jarek) Kopias

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards:** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.