Quantum Graphite Limited
(Formerly Valence Industries Limited)
ABN 41 008 101 979

(Subject to Deed of Company Arrangement)

2016

ANNUAL FINANCIAL REPORT

for the year ended
30 June 2016

Competent Persons Statement

Quantum Graphite Ltd (formerly Valence Industries Limited) 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), "High Grade Mineralisation Extended at Uley Graphite" (12/3/15), "50% Increase in Uley Graphite Resource" (5/5/15) and "Major Increase to Graphite Ore Reserve and Mine Life" (14/5/15), "Production Update" (21/9/15).

Contents

This Annual Financial Report covers Quantum Graphite Ltd (formerly Valence Industries Ltd) ("Quantum", "Valence" or the "Company") as a Group consisting of Quantum Graphite Ltd (formerly Valence Industries Ltd) and its subsidiaries, collectively referred to as the "Group". The financial report is presented in the Australian currency.

Quantum is a company limited by shares, incorporated and domiciled in Australia. Its offices are:

Principal Place of Business
Quantum Graphite Ltd (formerly Valence Industries Ltd)
349 Collin Street
Melbourne VIC 3000

Registered Office
Quantum Graphite Ltd (formerly Valence Industries Ltd)
349 Collin Street
Melbourne VIC 3000

Website
www.valenceindustries.com

Corporate Directory

Directors:

Stephen Chadwick

Non-Executive Chairman

Bruno Ruggerio

Non- Executive Director

Sal Catalano

Non-Executive Director

Company Secretary:

Sal Catalano

Principal Business Office:

349 Collin Street

Melbourne VIC 3000

Telephone: + 61 3 8614 8400

Registered Address:

349 Collins Street

Melbourne VIC 3000

Auditors:

Grant Thornton Audit Pty Ltd

Level 3

170 Frome Street

Adelaide SA 5000

Solicitors:

Nick Stretch Legal

530 Little Collins Street

Melbourne VIC 3000

Home Stock Exchange:

Australian Securities Exchange

20 Bridge Street

SYDNEY NSW 2000

ASX Codes:

VXL – fully paid ordinary shares

Share Registry:

Link Market Services Ltd

Tower 4, 727 Collins Street,

Docklands VIC 3008

DIRECTOR'S REPORT

The Directors of Quantum Graphite Ltd (formerly Valence Industries Ltd) (Subject to Deed of Company Arrangement) present their report on the Company and its subsidiaries, for the year ended 30 June 2016.

DIRECTORS

On 15 July 2016, the Company appointed Laurence Fitzgerald and Michael Humphris of William Buck as Joint and Several Administrators of Valence Industries Ltd, Valence Industries Operations Pty Ltd and Valence Industries Services Pty Ltd (collectively referred to as "the Companies").

At a subsequent meeting of Creditors held on 19 October 2016 Creditors approved Valence Industries Ltd and Valence Industries Operations Pty Ltd being placed into an Interlocking Deeds of Company Arrangement ("IDOCA"). It was also agreed that Valence Industries Services Pty Ltd be placed into liquidation.

As a term of the IDOCA, the existing board resigned effective 18 November 2016 and the new board of directors was appointed with effect from 18 November 2016. The original IDOCA was executed on 17 November 2016 with a Varied IDOCA executed on 22 December 2016.

Further details on the appointment of Administrators are detailed at events arising since the end of the reporting period (refer Note 27).

The following persons were directors of Valence Industries Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Graham Spurling - Chairman and Independent Non-Executive Director *(resigned 18 November 2016)*
Robert Mencel – Managing Director *(appointed 19 October 2015 and resigned 18 November 2016)*
Glenister Lamont - Non-Executive Director *(resigned 18 November 2016)*
Ian Pattison (Independent Non-Executive Director) *(resigned 18 November 2016)*
Ian Schache - Independent Non-Executive Director (resigned 2 March 2016)
Christopher Darby - Managing Director and Chief Executive Officer (resigned 30 November 2015)

The following directors were appointed as a term of the IDOCA:

Steven Chadwick – Chairman and Independent Non-Executive Director *(appointed 18 November 2016)*
Bruno Ruggiero – Independent Non-Executive Director *(appointed 18 November 2016)*
Sal Catalano – Independent Non-Executive Director *(appointed 18 November 2016)*

Graham Spurling AM, ED, FTSE, BTech, MechEng, MAutoEng
Independent Non-Executive Chairman (Resigned 18 November 2016)

EXPERIENCE AND EXPERTISE
Mr Spurling is a qualified mechanical engineer and the former Managing Director and Chief Executive Officer of Mitsubishi Motors Australia. He has significant knowledge of both the foundry and battery industries directly relevant to graphite and a deep understanding and experience in global markets delivering productivity in manufacturing.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Chairman of Phoenix Copper Limited (ASX: PNX, from 27 September 2007 to 21 November 2012).

INTEREST IN SHARES
200,001 Ordinary Shares held by an entity in which Mr Spurling has a beneficial interest.

INTEREST IN OPTIONS
164,286 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Spurling has a beneficial interest.

500,000 Unlisted Options exercisable at $1.10 and expiry of 31 July 2017, held by an entity in which Mr Spurling has a beneficial interest.

DIRECTORS' REPORT (CONTINUED)

Robert Mencel, BEng Mining, MBA GDM
Managing Director (Appointed 19 October 2015 and resigned 18 November 2016)

EXPERIENCE AND EXPERTISE

Mr Mencel was the Company's Chief Operating Officer and was appointed Deputy Managing Director effective 19 October 2015 and appointed as Managing Director effective 1 December 2015. He has extensive experience in the resources sector, with over 20 years developing a wide range of engineering, mining and mineral processing operations, translating strategic management objectives into operable practices. He has proven leadership abilities in developing cohesive teams to achieve stated outcomes within specific time frames. He holds a Bachelor Degree in Engineering (Mining), as well as post graduate qualifications from Deakin University of an MBA (Technology Management) and a Graduate Diploma in Management.

He was previously Managing Director of Ironclad Mining Limited and prior to that his roles have included General Manager at Mount Gibson, Deputy Project Manager at Tenix and senior operational management roles with Normandy Mining Limited and WMC Limited.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Managing Director Ironclad Mining Limited (ASX: IFE, from 1 January 2013 to 20 November 2014).

INTEREST IN SHARES

Nil.

INTEREST IN OPTIONS / PERFORMANCE RIGHTS

Nil.

Glenister Lamont, BEng Mining (Hons), MBA (IMD Switzerland), FAICD, FFin, MAusIMM
Non-Executive Director (Resigned 18 November 2016)

EXPERIENCE AND EXPERTISE

Mr Lamont is a professional non-executive Director. Recent roles include Managing Director and consultant for a range of resource companies. Previously, as a General Manager with Ashton Mining, he led strategy and commercial implementation of business development initiatives and managed all aspects of investor and corporate affairs. Prior to that, as an Executive Director at the leading European investment bank UBS Warburg, he conducted financial, technical and strategic evaluation of mining companies and participated in a wide range of corporate transactions. He has international mining experience in base metals, gold, coal and other commodities which included experience as a mining engineer with Preussag in Germany as well as a rock mechanics engineer and mining engineer in South Africa for Goldfields of South Africa.

SPECIAL RESPONSIBILITIES

Chairman of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES

Chairman of Strategic Energy Resources Limited (ASX: SER, from 11 December 2008) and non-executive Director of Golden Rim Resources (ASX: GMR from 17 July 2007)

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS

Nil.

INTEREST IN SHARES

104,167 Ordinary Shares held by an entity in which Mr Lamont has a beneficial interest.

INTEREST IN OPTIONS

57,441 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Lamont has a beneficial interest.

500,000 Unlisted Options exercisable at $1.10 and expiry of 31 July 2017, held by an entity in which Mr Lamont has a beneficial interest.

DIRECTORS' REPORT (CONTINUED)

Ian Pattison, BCom, LLB, CA
Independent Non-Executive Director (Resigned 18 November 2016)

EXPERIENCE AND EXPERTISE
Mr Pattison is currently director of Luminus Systems Limited and a director of Chimaera Capital Limited ("CCL"), an Australian based financial services company, 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.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
5,355,000 Ordinary Shares held by entities in which Mr Pattison has a beneficial interest.

INTEREST IN OPTIONS
5,262,500 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by entities in which Mr Pattison has a beneficial interest.

1,875,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by entities in which Mr Pattison has a beneficial interest.

Christopher Darby, BA LLB GAICD GDM(AGSM)
Former Managing Director and Chief Executive Officer (Resigned 30 November 2015)

EXPERIENCE AND EXPERTISE
Mr Darby joined the Company in September 2013 and was the Managing Director and Chief Executive Officer until 30 November 2015.

He had worked on and advised boards of public and private companies for over 20 years in the Asia Pacific, North America and Africa. He has extensive commercial, management, governance and operations experience with companies engaged in hard rock, oil, gas, energy, manufacturing, international procurement, engineering, industrial minerals and construction operations.

Mr Darby global graphite mining, processing and markets experience was as an Executive Director and Founder of the Tech Minerals Consulting Group, as Managing Director (Asia Pacific) for Mega Graphite (Australia), including on the Uley Graphite Mine, as Chief Executive Officer of Australian Graphite Limited and as General Counsel (Global) for MEGA Graphite Inc.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
802,084 Ordinary Shares held by entities in which Mr Darby has a beneficial interest.

INTEREST IN OPTIONS / PERFORMANCE RIGHTS
57,292 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Darby has a beneficial interest.

500,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Darby has a beneficial interest and escrowed to 6 January 2016.

DIRECTORS' REPORT (CONTINUED)

Ian Schache, B.Sc (Met), B.Econ Old
Former Independent Non-Executive Director (resigned 2 March 2016)

EXPERIENCE AND EXPERTISE
Mr Schache resigned on 2 March 2016. He has over 40 years' experience across a diverse range of development, operations and production activities in the mining industry. Ian is a Director of New South Resources Limited and was previously Executive General Manager for Bemax Resources Ltd, Senior Vice President and Chief Operating Officer for Tiomin Resources Inc. and Executive General Manager Operations for Westralian Sands/Iluka Resources Ltd. Prior experience includes 16 years in engineering and management with Mount Isa Mines Ltd.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
250,001 Ordinary Shares held by an entity in which Mr Schache has a beneficial interest.

INTEREST IN OPTIONS
17,858 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Schache has a beneficial interest.

500,000 Unlisted Options exercisable at $1.10 expiring on 31 July 2017, held by an entity in which Mr Schache has a beneficial interest.

COMPANY SECRETARY
Jaroslaw (Jarek) Kopias, BCom, CPA, AGIA, ACIS
Company Secretary and Chief Financial Officer (Resigned 18 November 2016)

Mr Kopias is a qualified Certified Practising Accountant who has worked extensively in the resource sector in various corporate and mine site roles. He holds a Bachelor of Commerce Degree, is a Chartered Secretary and a member of the Institute of Certified Practising Accountants in Australia.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND COMPANY SECRETARY APPOINTED WITH EFFECT FROM 18 NOVEMBER 2016
Stephen Chadwick BASc (Metallurgy)
Independent Non-Executive Chairman (Appointed 18 November 2016)

EXPERIENCE AND EXPERTISE
Mr Chadwick is a Metallurgical Graduate of the WA School of Mines with 40 years' experience in the mining industry, incorporating technical, operating and management roles, as well as a strong metallurgical background.

Mr Chadwick is now a metallurgical consultant specialising in project management and feasibility studies for a range of local and international clients. He was a founding director of BC Iron and a former managing director of Coventry Resources, PacMin Mining and Northern Gold. He was a director and consulted to major Canadian miner Teck Resources Australian subsidiary company for 10 years.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Non-Executive Director of Lycopodium Limited (ASX: LYL from 13 January 2016)

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Managing Director of Coventry Resources Limited (ASX: CYY, from 29 April 2013 to 20 May 2014)

INTEREST IN SHARES
Nil.

INTEREST IN OPTIONS
Nil.

Bruno Ruffiero BE (Mech), Grad Dip MinSc (Ext. Met), GradCertEng Tech (Struct)
Independent Non-Executive Director (Appointed 18 November 2016)

EXPERIENCE AND EXPERTISE

Bruno has multiple degrees in engineering and over 30 years' experience in the minerals industry, both nationally and internationally from scoping to operations, and is a founding partner of the publicly listed Lycopodium Ltd.

Currently Technical Director with Lycopodium Minerals, Bruno sets the technical direction and standards for new project initiatives that the Lycopodium Minerals undertakes.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Non-Executive Director of Lycopodium Limited (ASX: LYL from 25 October 2001)

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
Nil.

INTEREST IN OPTIONS
Nil.

DIRECTORS' REPORT (CONTINUED)

Sal Catalano B.Juris., LLB, FITA
Independent Non-Executive Director and Company Secretary (Appointed 18 November 2016)

EXPERIENCE AND EXPERTISE
Mr Catalano has extensive experience across business, the law and investment banking. He brings strong leadership skills and international business experience to the Board. He was a former Principal of Paloma Partners' securities financing group, Head of Donaldson Lufkin & Jenrette's Asian securities business and a Director of Credit Suisse's Alternative Capital Group. He is a Principal of the Chimaera Financial Group.

SPECIAL RESPONSIBILITIES
Chairman of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Chairman and Chief Executive Officer of DIGGA Australian Mining Fund (ASX: DGA) (30 January 2012 - 27 March 2015)

INTEREST IN SHARES
Nil.

INTEREST IN OPTIONS
Nil.

PRINCIPAL ACTIVITIES

The Company's principal activities are the exploration, mining, processing and manufacture of graphite and associated products

OPERATING AND FINANCIAL REVIEW

On 1 July 2015, the Company announced that pursuant to the syndicated debt facilities agreed with Singapore based Chimaera Capital Markets Pte Ltd ("CCM") and announced on 1 May 2015 the Company would draw down an amount of $3.0 million in bridge financing with up to a further $0.5 million available under that bridge. The financing was secured over all of the Group's assets, had fees of 10% of face value and an interest rate of 12.5% per annum, providing interim funding while the remaining conditions precedent for the larger US$20.0 million Initial Facility were to be satisfied.

The Company issued on 2 July 2015, 3,032,270 ordinary shares with a total of 1,516,193 free attaching options (with an exercise price of $0.25 and expiry of 31 July 2016) to raise approximately $0.88 million under a renounceable rights issue announced in May 2015.

The Company announced on 21 July 2015 an additional multi-year, multi-product Sales Contract signed with a major customer for flake graphite sales in excess of US$50.0 million over three years. Graphite supplied under the new contract would 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 exceeded Valence Industries' previously announced weighted average price of US$1,335 per tonne and included take or pay provisions on the volumes ordered. As a consequence of the Company being placed into Voluntary Administration this agreement lapsed.

On 17 August 2015, the Company announced the appointment of experienced executive and engineer Robert Mencel as Chief Operating Officer to work closely alongside the Chief Executive Officer and Managing Director Christopher Darby to deliver operational improvements for the Company.

The Company issued on 4 September 2015 2,062,500 shares to Rio Tinto Exploration Pty Ltd with respect to concluding legacy royalties. Under the agreement, Rio Tinto Exploration Pty Ltd became a shareholder in the Company with 2,062,500 shares and received a cash payment of $100,000 concluding all legacy royalties. As part of the agreement, the Company would also receive an introduction to the relevant people for supply of graphite to the Rio Tinto group.

On 21 September 2015, the Company provided an update on production and commissioning progress at the Uley Graphite™ operations. Concentrate grades of up to 94% had been achieved with high proportions of large flake sizes however production testing identified process bottlenecks which when removed would improve grades and reduce processing costs.

A program of process improvements and enhancements to address the bottlenecks and increase the capacity of the existing plant to over 20,000 tonnes per annum by April 2016 would commence upon the finalisation of finance facilities. Cost reduction measures were also implemented including a reduction in Adelaide and Uley workforces.

The Company advised on 16 October 2015 that Christopher Darby was resigning as Managing Director and Chief Executive Officer of the Company and would assume an executive strategy and customer focussed role with the Company with effect from 1 December 2015. Robert Mencel was appointed Deputy Managing Director effective 19 October 2015 and would be appointed Managing Director effective 1 December 2015.

On 13 November 2015, the Company requested a Trading Halt pending an announcement in relation to a potential capital raising. The Company subsequently sought voluntary suspension to allow it more time to finalise work on the potential capital raising.

The Company announced on 2 December 2015 that it was suspending operations at Uley to minimise cash outgoings by reducing operation and head office costs following processing and bottleneck issues at the Uley processing plant, and retained a limited number of key staff to continue planning for the forward work program. The Company also announced it was perusing a capital raising process that was estimated to be concluded in early 2016.

During March 2016, the Company advised it was continuing to pursue a recapitalisation of the balance sheet via a Rights Issue which required the participation of all shareholders and creditors (secured and unsecured). This recapitalisation was not achieved and subsequently on 15 July 2016 the Company appointed Laurence Fitzgerald and Michael Humphris of William Buck as Joint and Several Administrators of Valence Industries Ltd, Valence Industries Operations Pty Ltd and Valence Industries Services Pty Ltd

The net loss for the Group for the year was $11,119,122 (2015: $10,308,483) after providing for income tax and includes $311,300 in impairment charges and $3,241,991 in debt raising costs – an increase of $810,639 to the corresponding period.

DIRECTORS' REPORT (CONTINUED)

The Company had $46,794 cash on hand as at 30 June 2016, a reduction of $1,542,013 from 30 June 2015. Pursuant to the Company's obligations under the Uley Graphite™ Program for Environment Protection and Rehabilitation approved on 23 December 2014, a rehabilitation bond of $1.709 million was lodged. A term deposit is held as security against the bond. The rehabilitation bond was reassessed during the period and the required term deposit was reduced to $1.080 million with $628,000 refunded to the Group during the year.

Strategy & Outlook

In the Proposal for the IDOCA (refer to the section below on events arising since the end of reporting period) submitted to the meeting of Creditors held on 27 October 2016, the funds to be advanced will be utilised to:

- Meet the ongoing costs of the Administrators associated with the care and maintenance of the mine site;
- To satisfy any priority creditor payments in accordance with section 556 of the Corporations Act;
- Undertake the following works are to be completed to establish the future strategic direction of the mine:
    - The preparation of a revised mine plan including the completion of metallurgical test work and drilling works that may be required;
    - The extension of the Company's existing resources and reserves; and
    - The completion of a definitive feasibility study which shall be undertaken by Lycopodium Minerals.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company that occurred during the reporting period that has not otherwise been disclosed in this report or the financial statements.

DIVIDENDS

There were no dividends paid or declared during the reporting period or to the date of this report.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the financial year on 15 July 2016 the Company appointed Laurence Fitzgerald and Michael Humphris of William Buck as Joint and Several Administrators of Valence Industries Ltd ("VXL"), Valence Industries Operations Pty Ltd ("VIO") and Valence Industries Services Pty Ltd ("VIS") (collectively referred to as "the Companies").

At a subsequent meeting of Creditors held on 19 October 2016 Creditors approved VXL and VIO entering into Interlocking Deeds of Company Arrangement ("IDOCA"). It was resolved Valence Industries Services Pty Ltd would be placed into liquidation.

The key terms of the Deed of Company Arrangement ("DOCA") and Creditors' Trust submitted by Chimaera Capital Limited as trustee of the VXL General Liquidity Trust (the "Secured Creditor") for the restructure of both VXL and VIO and approved at the Creditors meeting on 19 October 2016 is as follows:

- The VXL General Liquidity Trust ("the Proponent") as senior secured lender to the Group coverts a minimum of 25% of trust indebtedness as at the date of the proposal (being 3 October 2016) of approximately $9.1 million ("the Current Advance") be converted into ordinary shares at the issue price of $0.00252 per share.
- The Proponent to advance a further amount to be no less than $2.5 million and up to $4.0 million for working capital post restructure ("the New Advance").
- Unsecured creditors of VXL and VIO will be entitled to convert their debt into equity at a price of $0.016 per share ($0.02 but issued at a discount of 20%).
- Key variables in determining the unsecured creditors level of shareholding post maturity of the Notes are:
    - Percentage of the Current Advance investors electing to convert into debt rather than secured convertible notes;
    - The amount of capital raised in the New Advance; and
    - The share price the Notes are converted at.
- 100% of the New Advance to convert into ordinary shares at the issue price $0.00252 per share.

DIRECTORS' REPORT (CONTINUED)

- The balance of the unconverted Current Advance will be converted into secured converting notes ("the Notes") at the issue price of $0.85 per note.
- The Notes can be converted prior to re-quotation of VXL's stock on the Australian Securities Exchange or after an initial lock period of six months' post re-quotation.
- The Notes can be converted at the volume weighted average price of the ordinary shares of VXL but for no less than $0.016 per share.
- The Notes mature on 1 December 2018 at which point security will be completely relinquished.
- The table below illustrates the estimated shareholding percentage for unsecured creditors if the Notes are converted at the minimum price of $0.016 per share:

Estimated unsecured creditor shareholding at a minimum conversion price of $0.016	Additional Advance Raised $ 2,500,000	$ 4,000,000
25% of Current Advance converted prior to requotation	10.395%	8.944%
50% of Current Advance converted prior to requotation	9.374%	8.177%
100% of Current Advance converted prior to requotation	6.519%	5.917%

- The following table demonstrates the estimated shareholding spread if the minimum amount of $2.5 million is raised in the New Advance, the minimum percentage of 25% of the Current Advance convert to equity at a share price of $0.00252 and the Notes are converted at the minimum price of $0.016:

Shareholder	Number of Shares	Percentage of Shareholding
VXL Liquidity Trust	2,599,738,469	83.233%
Unsecured Creditors	324,695,598	10.395%
Existing Shareholders	199,016,244	6.372%
Total	**3,123,450,311**	**100.000%**

- This reflects the unsecured creditors of VXL and VIO would represent approximately 10.4% of the restructured share capital of VXL post DOCA and post restructuring.
- The Deed also provides all Administrator and legal costs to be covered out of funds from the New Advance.
- All verified priority creditor claims in VXL and VIO to be discharged (paid out in full) through funds made available from the New Advance.
- The existing board to resign and a new board of directors to be appointed. The transition of the board occurred on 18 November 2016.
- The name of the Company was to change, which occurred on 18 November 2016, with Valence Industries Ltd becoming Quantum Graphite Ltd and Valence Industries Operations Pty Ltd becoming Quantum Graphite Operations Pty Ltd.
- The original IDOCA was executed on 17 November 2016 with a Varied IDOCA executed on 22 December 2016.
- The implementation of the DOCA proposal is, once the Deeds of Company Arrangement are executed, conditional on a number of further milestones being achieved:
  - Milestone 1 – Each of the companies executing a Creditor's Trust Deed within 5 Business Days of executing the DOCA or such further time as required if an application to Court is made for approval.
  - Milestone 2 – The Secured Creditor making the Additional Trust Advance within 30 days of the execution of the Creditors Trust Deed.
  - Milestone 3 – within 15 days of after the end of the period in Milestone 2 or 45 days of the DOCA being signed, the holding of a shareholders meeting at which the shareholders approve the entry by the companies into the Deed of Restructure and Compromise.
  - Milestone 4 – within three months after Milestone 3 is achieved all required approvals of the ASX being obtained for the restructure and re-listing of VXL.

The restructure by the VXL Liquidity Trust requires that a creditors' trust be established to allow for VXL and VIO to exit administration following approval and execution of the DOCA. The establishment of a creditors' trust extinguishes the companies' liabilities and transfers the liabilities to a trust created with the creditors being installed as beneficiaries. This exit from external administration will allow for the process to have VXL securities requoted on the ASX to commence immediately, which in turn will provide value to the securities issued to creditors as part of the proposed restructure.

On 19 July 2016 the Minister for Mineral Resources and Energy drew down $100,000 of the rehabilitation bond, which brings the balance held on term deposit to $0.98 million.

The expiry date for a total of 73,402,418 listed options and 3,500,000 unlisted options with an exercise price of 25 cents was 31 July 2016. These options were not exercised and lapsed post year end.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

LIKELY DEVELOPMENTS

The likely developments for the Company include the completion of the IDOCA process, the provision of the New Advance and to undertake the works described below:

- The preparation of a revised mine plan including the completion of metallurgical test work and drilling works that may be required;
- The extension of the Company's existing resources and reserves; and
- The completion of a definitive feasibility study which shall be undertaken by Lycopodium Minerals.

DIRECTORS' MEETINGS

The number of Directors' meetings held during the reporting period and the number of meetings attended by each Director is as follows:

	Board Meetings		Audit Committee Meetings	
Directors	**Attended**	**Entitled to attend**	**Attended**	**Entitled to attend**
GG Spurling	10	10	2	2
R Mencel[1]	7	7	-	-
G Lamont	10	10	2	2
ID Pattison	10	10	2	2
CS Darby[2]	5	5	-	-
IS Schache[3]	8	8	2	2

[1] Mr Mencel was appointed 19 October 2015
[2] Mr Darby resigned 30 November 2015
[3] Mr Schache resigned 2 March 2016

At this time, there are no separate Board committees, other than the audit committee as disclosed above, as all matters usually delegated to such committees are handled by the Board as a whole.

UNISSUED SHARES UNDER OPTION

Unissued ordinary Shares of Valence under option as at the date of this report:

Date options Granted	Expiry date	Exercise price of shares	Number under option
19 February 2015	31 July 2017	$1.10	1,500,000
Total unlisted options			**1,500,000**

REMUNERATION REPORT (AUDITED)

The Directors of Quantum Graphite Ltd (formerly Valence Industries Limited) present the Remuneration Report in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The Remuneration Report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Share-based remuneration

A. Principles used to determine the nature and amount of remuneration

The Company's remuneration policy has been designed to align objectives of key management personnel with objectives of shareholders and the business, by providing a fixed remuneration component and offering specific long-term incentives through the issue of options and / or performance rights. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and Directors to run and manage the Company. The key management personnel of the Company are the Board of Directors and Executive Officers.

The Board's policy for determining the nature and amount of remuneration for its members and key management personnel of the Company is as follows:

- The remuneration policy, setting the terms and conditions for the executive Directors and key management personnel, was developed by the Board. All key management personnel are remunerated on a consultancy or salary basis based on services provided by each person. The Board annually reviews the packages of key management personnel by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

- The Board may exercise discretion in relation to approving incentives, bonuses, options and performance rights. The policy is designed to attract the highest calibre of key management personnel and reward them for performance that results in long-term growth in shareholder wealth.

- Key management personnel are also entitled to participate in the Company's Performance Rights and Option Plan as approved by shareholders at the 2013 AGM.

- The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting (currently $500,000). Fees for non-executive Directors are not linked to the performance of the Company, except in relation to KPI options. Additionally, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the Performance Rights and Option Plan.

During the reporting year, performance reviews of senior executives were not conducted.

Performance based remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and other key management personnel. Currently, this is facilitated through the issue of options and/or performance rights to key management personnel to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

In considering the consolidated entity's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and the previous financial year:

	2016	**2015**	**2014**
	$	**$**	**$**
Loss attributable to owners of the company	(11,119,122)	(10,308,483)	(2,961,929)
Dividends paid	-	-	-
Change in share price	n/a[1]	(0.20)	0.21

[1] Shares on ASX were suspended from trading on 13 November 2015.

The previous two years are not considered as the Company was newly listed in January 2014.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Voting at the company's 2015 Annual General Meeting

Valence Industries received 34% votes against the resolution to adopt the 2015 Remuneration Report being a "First Strike" at the Company's AGM held on 25 November 2015. There were no questions or issues raised by shareholders regarding remuneration at that meeting.

The Company did not engage remuneration consultants during the reporting period.

B. Details of remuneration

Details of the nature and amount of each element of the remuneration of the Company's key management personnel ("KMP") are shown below:

Director and other Key Management Personnel Remuneration

2016	**Short term benefits**	**Post-employment benefits**	**Share-based payments**		**% of remuneration that is equity based**	**Salary, fees and superannuation owing at year end**
	Salary and fees $	**Super-annuation $**	**Options and Performance Rights[1] $**	**Total $**		
Non-Executive Directors						
G Spurling	68,493	6,507	-	75,000	0%	56,250
G Lamont	45,662	4,338	-	50,000	0%	33,333
I Schache[2]	14,960	18,374	-	33,334	0%	16,669
I Pattison	45,662	4,338	-	50,000	0%	33,333
Executive Directors						
R Mencel[3]	254,401	24,169	-	278,570	0%	100,631
C Darby[4]	229,327	-	-	229,327	0%	-
Other Key Management Personnel						
J Kopias[5]	87,231	-	-	87,231	0%	17,506
C Whiteley	313,752	-	-	313,752	0%	102,792
Total	**1,059,488**	**57,726**	**-**	**1,117,214**	**0%**	360,514

2015	**Short term benefits**	**Post-employment benefits**	**Share-based payments**		**% of remuneration that is equity based**	**Salary, fees and superannuation owing at year end**
	Salary and fees $	**Super-annuation $**	**Options and Performance Rights[1] $**	**Total $**		
Non-Executive Directors						
G Spurling	68,493	6,507	17,793	92,793	19%	542
G Lamont	45,662	4,338	17,793	67,793	26%	361
I Schache	18,100	31,900	17,793	67,793	26%	2,658
I Pattison[6]	25,531	2,426	-	27,957	0%	361
Executive Directors						
C Darby	333,071	-	96,084	429,155	22%	-
Other Key Management Personnel						
J Kopias[5]	260,138	-	-	260,138	0%	29,563
C Whiteley	269,751	-	-	269,751	0%	-
Total	**1,020,746**	**45,171**	**149,463**	**1,215,380**	**12%**	33,485

(1) Performance rights and options issued to Directors in 2015 as approved at the 19 February 2015 General Meeting and issued to Directors in 2014 as approved at the 2013 AGM.
(2) Mr Schache resigned 2 March 2016.
(3) Mr Mencel was appointed Deputy Managing Director 19 October 2015.
(4) Mr Darby resigned 30 November 2015.
(5) Fees paid to Kopias Consulting for CFO, Company secretarial and accounting services – an entity associated with Mr Kopias.
(6) Mr Pattison was appointed a director on 10 December 2014.

Other than Mr Pattison all Directors had been issued with performance based options. The KPI's associated with the options and rights are detailed in section D below.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Transactions with KMP
Transactions with key management personnel are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Christopher Darby
Whitington Darby, a business of which Mr Darby holds a beneficial interest, was paid Managing Director and CEO and consulting fees during the period totalling $229,327 (2015: $333,071). The total amount of fees due to Whitington Darby as at 30 June 2016 was $Nil (2015: $Nil).

The Company engaged Watsons Lawyers during the year, a firm in which Mr Darby is a partner, on commercial terms for the provision of legal advice and a corporate office. The Company incurred $82,485 of legal fees and $35,105 of office costs during the financial year (2015: $335,832). The total amount of fees due to Watsons Lawyers as at 30 June 2016 was $100,841(2015: $52,154).

Ian Schache
Valence Industries engaged Coronet Consultants, a business in which Mr Schache is a Director, on commercial term for the provision of technical services. The Company has incurred $Nil (2015: $16,727) of fees during the financial year. The total amount of fees due to Coronet Consultants as at 30 June 2016 was $Nil (2015: $Nil).

Glenister Lamont
Valence Industries engaged Logmaor Services, a business in which Mr Lamont is a Director, on commercial term for the provision of technical services. The Company has incurred $Nil (2015: $7,500) of fees during the financial year. The total amount of fees due to Logmaor Services as at 30 June 2016 was $Nil (2015: $Nil).

Jarek Kopias
Kopias Consulting, a business of which Jarek Kopias is a Director was paid company consulting fees during the year totalling $126,791 (2015: $342,917). Services provided by this entity relate to CFO, Company secretarial and accounting services provided by Mr Kopias and staff of the business. The total amount of fees due to Kopias Consulting as at 30 June 2016 was $17,506 (2015: $29,563).

C. Service agreements

Remuneration and other terms of employment for the Executive Directors and other KMP are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below:

Name	Base remuneration	Unit of measure	Term of agreement	Notice period	Termination benefits
R Mencel[1] COO and then MD & CEO	$300,000	per annum contract	Indefinite	Variable depending on length of service	Variable depending on length of service
C Darby[2] MD & CEO	$331,000	per annum contract	Indefinite	Twelve months	Twelve months
J Kopias CFO & Co Sec	Variable	hourly rate contract	Indefinite	One month	None
C Whiteley CMO	US$220,000	per annum contract	Indefinite	One month	Variable depending on length of service

(1) Mr Mencel was appointed Deputy Managing Director 19 October 2015 and Managing Director on 1 December 2015.
(2) Mr Darby resigned as Managing Director and CEO on 30 November 2015.

REMUNERATION REPORT (AUDITED) (CONTINUED)

D. Share-based remuneration

Unlisted options
All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

There were no options over ordinary shares in the Company that were granted as remuneration to each KMP during 2015/16.

Performance Rights
There were no performance rights over ordinary shares in the Company granted as compensation during the reporting period.

Share holdings of key management personnel

The number of ordinary shares of Quantum Graphite Limited (formerly Valence Industries Limited) held, directly, indirectly or beneficially, by each KMP, including their personally-related entities as at the reporting date:

2016

KMP	Held at 30 June 2015	Acquired during year[1]	Disposed during year	Options / Rights Exercised	Held at 30 June 2016
G Spurling	171,429	28,572	-	-	200,001
R Mencel	-	-	-	-	-
G Lamont	89,286	14,881	-	-	104,167
I Pattison	4,590,000	765,000	-	-	5,355,000
J Kopias	62,500	10,000	-	-	72,500
C Darby	687,500	114,584	-	-	802,084
I Schache	214,286	35,715	-	-	250,001
Total	5,815,001	968,752	-	-	6,783,753

[1] All shares acquired during the year were issued upon director participation in the Company's Rights Issue allotted on 2 July 2015.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Option holdings of key management personnel

The number of options over ordinary shares in Quantum Graphite Limited (formerly Valence Industries Limited) held, directly, indirectly or beneficially, by each KMP, including their personally-related entities as at the reporting date, is as follows:

Unlisted options

Directors 2016	**Held at 30 June 2015**	**Issued during year**	**Lapsed during year**	**Exercised**	**Held at 30 June 2016**	**Vested and exercisable at 30 June 2016**
G Spurling[1]	500,000	-	-	-	500,000	500,000
G Lamont[1]	500,000	-	-	-	500,000	500,000
I Pattison	1,875,000	-	-	-	1,875,000	1,875,000
C Darby[1]	4,500,000	-	(4,000,000)	-	500,000	500,000
I Schache[1]	500,000	-	-	-	500,000	500,000
Total	7,875,000	-	(4,000,000)	-	3,875,000	3,875,000

[1] Options lapse where the corresponding KPI condition are not met.

Listed options

Directors 2016	**Held at 30 June 2015**	**Issued during year**	**Lapsed during year**	**Exercised**	**Held at 30 June 2016**	**Vested and exercisable at 30 June 2016**
G Spurling	150,000	14,286	-	-	164,286	164,286
G Lamont	50,000	7,441	-	-	57,441	57,441
I Pattison	4,880,000	382,500	-	-	5,262,500	5,262,500
C Darby	-	57,292	-	-	57,292	57,292
I Schache	-	17,858	-	-	17,858	17,858
Total	5,080,000	479,377	-	-	5,559,377	5,559,377

END OF AUDITED REMUNERATION REPORT

ENVIRONMENTAL LEGISLATION

The Directors believe that the Company has, in all material respects, complied with all particular and significant environmental regulations relevant to its operations.

The Company's operations are subject to various environmental regulations under the Commonwealth and State Laws of Australia. Approvals, licences, hearings and other regulatory requirements are performed, as required, by the Company's management for each permit or lease in which the Company has an interest.

INDEMNITIES GIVEN AND INSURANCE PREMIUMS PAID TO AUDITORS AND OFFICERS

During the year, the Company paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all officers.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the reporting period, except to the extent permitted by law, indemnified or agreed to indemnity any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

NON-AUDIT SERVICES

During the year Grant Thornton performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the reporting period by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company and its related practices for audit and non-audit services provided during the reporting period are set out in note 20 to the Financial Statements.

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 18 of this Financial Report and forms part of this Directors' Report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

The Board has adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 3rd Edition" (ASX Recommendations). The Board continually monitors and reviews its existing and required policies, charters and procedures with a view to ensuring its compliance with the ASX Recommendations to the extent deemed appropriate for the size of the Company and its development status.

A summary of the Company's ongoing corporate governance practices is set out annually in the Company's Corporate Governance Statement and can be found on the Company's website at www.valenceindustries.com/responsibilities.php.

Signed in accordance with a resolution of the Directors.

Sal Catalano
Director
7 April 2017

Bruno Ruggiero
Director
7 April 2017

Grant Thornton

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF QUANTUM GRAPHITE LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Quantum Graphite Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 7 April 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2016

	Notes	2016 $	2015 $
Sales revenue		-	3,759
Other income		677	5,510
Corporate expenses	2	(2,692,075)	(4,732,705)
Commercialisation expenses	2	(670,990)	(1,297,789)
Pre-commissioning expenses	2	(3,742,308)	(4,051,798)
Total operating loss		**(7,104,696)**	**(10,073,023)**
Interest revenue		33,211	231,006
Interest expense		(617,773)	(4,176)
Foreign exchange loss		(2,172)	(18,886)
Debt raising costs		(3,241,991)	(69,500)
Net financing income / (expense)		**(3,828,725)**	**138,444**
Loss on sale of assets		(28,256)	-
Impairment Expense		(311,300)	-
Loss before tax		(11,272,977)	(9,934,579)
Income tax benefit / (expense)	3	153,855	(373,904)
Loss for the year attributable to owners of the parent entity		(11,119,122)	(10,308,483)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of the parent entity		(11,119,122)	(10,308,483)
Loss per share from continuing operations			
Basic and diluted loss – cents per share	4	(5.60)	(5.63)

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	2016 $	2015 $
ASSETS			
Cash and cash equivalents	5	46,794	1,588,807
Term deposits (restricted cash)	6	1,080,000	1,708,776
Trade and other receivables	7	30,670	234,488
Inventory		6,280	6,280
Intangible assets		7,376	214,578
Development expenditure	8	6,753,775	5,351,664
Exploration and evaluation expenditure	9	1,415,705	1,318,979
Property, plant and equipment	10	8,097,235	8,554,085
Other assets		47,088	547,855
TOTAL ASSETS		17,484,923	19,525,512
LIABILITIES			
Trade and other payables	11	5,920,278	5,509,371
Employee provisions	12	58,619	150,813
Borrowings	13	8,604,934	215,334
Rehabilitation provision	14	558,369	558,369
Share subscriptions received	15	-	879,358
TOTAL LIABILITIES		15,142,200	7,313,245
NET ASSETS / (LIABILITIES)		2,342,723	12,212,267
EQUITY			
Issued capital	16	29,155,724	27,906,146
Reserves	17	734,965	831,049
Accumulated losses		(27,547,966)	(16,524,928)
TOTAL EQUITY		2,342,723	12,212,267

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2016

2016	**Share capital $**	**Option / Rights reserve $**	**Accumulated losses $**	**Total equity $**
Balance at beginning of year	**27,906,146**	**831,049**	**(16,524,928)**	**12,212,267**
Issue of shares upon exercise of options	42	-	-	42
Rights Issue	879,358	-	-	879,358
Share Placement	412,500	-	-	412,500
Issue costs (net of tax)	(42,322)	-	-	(42,322)
Lapse of unlisted options and performance rights	-	(96,084)	96,084	-
Transactions with owners	29,155,724	734,965	(16,428,844)	13,461,845
Comprehensive income:				
Total loss for the year	-	-	(11,119,122)	(11,119,122)
Total other comprehensive income for the year	-	-	-	-
Balance 30 June 2016	**29,155,724**	**734,965**	**(27,547,966)**	**2,342,723**

2015	**Share capital $**	**Option / Rights reserve $**	**Accumulated losses $**	**Total equity $**
Balance at beginning of year	**13,898,624**	**1,096,180**	**(6,354,297)**	**8,640,507**
Issue of shares upon exercise of options	128,308	-	-	128,308
Share Placements	14,064,114	-	-	14,064,114
Share Purchase Plan	687,531	-	-	687,531
Issue costs (net of tax)	(872,431)	-	-	(872,431)
Issue of equity as remuneration to KMP	-	149,463	-	149,463
Lapse of unlisted options and performance rights	-	(414,594)	137,852	(276,742)
Transactions with owners	27,906,146	831,049	(6,216,445)	22,520,750
Comprehensive income:				
Total loss for the year	-	-	(10,308,483)	(10,308,483)
Total other comprehensive income for the year	-	-	-	-
Balance 30 June 2015	**27,906,146**	**831,049**	**(16,524,928)**	**12,212,267**

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows
For the year ended 30 June 2016

	Notes	2016 $	2015 $
Operating activities			
Receipts from customers		677	3,759
Payments to suppliers and employees		(6,396,301)	(8,027,547)
Interest received		33,212	262,549
Interest payment		(34,748)	(4,176)
R&D Tax concession received		153,855	-
Net cash used in operating activities	18	(6,243,305)	(7,765,415)
Investing activities			
Payments for plant and equipment		(174,005)	(7,049,192)
Payments for exploration expenditure		(222,384)	(858,923)
Payments for development expenditure		(1,280,159)	(2,480,418)
(Investment in)/return of restricted term deposits		628,776	(1,708,776)
Net cash used in investing activities		(1,047,772)	(12,097,309)
Financing activities			
Proceeds from issue of share capital		412,542	14,879,952
Subscriptions received		-	879,358
Capital raising costs		(42,322)	(1,140,556)
Drawdown of Loan		5,581,984	-
Repayment of Loan		(203,140)	(20,606)
Net cash from financing activities		5,749,064	14,598,148
Net change in cash and cash equivalents		(1,542,013)	(5,264,576)
Cash and cash equivalents - beginning of year		1,588,807	6,853,383
Cash and cash equivalents - end of year	5 (a)	46,794	1,588,807

This statement should be read in conjunction with the notes to the financial statements.

Notes to the consolidated financial statements
For the year ended 30 June 2016

1. Basis of preparation

a) Realisation basis of preparation

Based on current forecasts and existing financing arrangements, there is significant uncertainty as to the Company's ability to meet its ongoing operating and financing commitments over the foreseeable future. Consequently, the financial statements have not been prepared on a "going concern" basis but rather have been prepared on an "alternate" basis representing a planned orderly realisation of assets and settlement of liabilities.

As at 30 June 2016 the Company had accumulated losses of $27.8 million, and net assets of $2.3 million, in addition, the Company had operating cash outflows of $6.2 million for the year with cash and cash equivalents of $46,794 at 30 June 2016.

From 13 November 2015 the Company had been suspended from trading on the Australian Stock Exchange (ASX) and post balance date on 15 July 2016, the Company was placed into Voluntary Administration. Subsequently, at a meeting of creditors of the Company held on 27 October 2016, it was resolved that the Company enter a DOCA.

i) Realisation basis of accounting

The "realisation basis" of accounting adopted by the Company in the preparation of its financial statements continues to apply the requirements of Australian Accounting Standards taking into account that the Company is not expected to continue as a going concern in its present form in the foreseeable future.

As the non-current assets do not meet the requirements for held for sale or discontinued operations under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, they continue to be recognised as non-current assets at cost, less impairment losses. However, the adoption of the alternative basis of accounting representing a planned orderly realisation of assets and settlement of liabilities has resulted in a change in the method of assessing the recoverable value of certain intangible and non-monetary assets which have required impairments in accordance with AASB 136 *Impairment of Assets*. The carrying value of assets at 30 June 2016 reflects the directors' assessment of recoverable value (or amortised cost if lower than recoverable value).

Borrowings and provisions has been classified as current liabilities as at 30 June 2016.

No additional provisions or liabilities have been recognised as a result of adopting the alternate basis of accounting as the Directors have not incurred any additional legal or contractual obligations.

The valuation of assets and liabilities included in these financial statements have been shown to reflect the subsequent event transactions that are known.

b) Statement of compliance

This consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards ("AASB's") and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB"). Quantum Graphite Ltd (formerly Valence Industries Limited) is a listed company, registered and domiciled in Australia. Quantum Graphite Ltd (formerly Valence Industries Limited) is a for profit entity for the purpose of preparing the financial statements.

The consolidated financial statements for the reporting period ended 30 June 2016 were approved and authorised by the Board of Directors on 3 April 2017.

c) Basis of measurement

The Financial Report has been prepared on an accruals basis, and is based on historical costs, modified by the measurement at fair value of selected assets, financial assets and financial liabilities.

Notes to the consolidated financial statements (Continued)

2. Significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are summarised below.

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quantum Graphite Ltd (formerly Valence Industries Limited) as at 30 June 2016 and the results of all subsidiaries for the year then ended.

Subsidiaries
The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2016. Subsidiaries are all entities (including structured entities) over which the Group has

i) the power to direct the relevant activities;
ii) exposure to significant variable returns; and
iii) the ability to utilise power to affect the Group's own returns.

Subsidiaries are fully consolidated from the date on which control is fully transferred to the Group. They are deconsolidated from the date that control ceases. All subsidiaries have a reporting date of 30 June.

A list of controlled entities is contained in Note 19 to the Financial Statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted, where necessary, to ensure consistency with the accounting policies adopted by the Group.

b) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

c) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria, as prescribed by AASB 8 *Operating Segments*, are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Directors have considered the requirements of AASB 8 *Operating Segments* and the internal reports that are reviewed by the Board in allocating resources have concluded that at this time there are no separately identifiable segments.

d) Revenue

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The Group often enters sales transactions involving a range of the Group's products. The Group applies the revenue recognition criteria set out below.

Notes to the consolidated financial statements (Continued)

Sale of products
Sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of goods with no significant service obligation is recognised on delivery.

All income is stated net of goods and services tax ("GST").

Interest and dividend income
Interest income and expenses are reported on an accrual basis using the effective interest method. Dividends, other than those from investments in associates, are recognised at the time the right to receive payment is established.

e) Finance income and expense

Finance income comprises interest income on funds invested, gains on disposal of financial assets and changes in fair value of financial assets held at fair value through profit or loss.

Interest income is recognised as it accrues in the profit or loss, using the effective interest rate method.

f) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the items. Repairs and maintenance are charged to the profit or loss during the reporting period in which they were incurred.

Plant and equipment under construction is accumulated until it is installed and ready for use at which time the costs are transferred to plant and equipment and depreciated.

Depreciation is calculated using the diminishing value method to allocate asset costs over their estimated useful lives, as follows:

Plant and equipment	3-20 years

The assets residual values and useful lives are reviewed and adjusted at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other revenues in respect of those assets to retained earnings.

g) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that right of tenure is current and those costs are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

Accumulated costs, in relation to an abandoned area, are written off in full against profit in the period in which the decision to abandon the area is made.

h) Development expenditure

Development expenditure represents the accumulation of all acquired exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest being prepared for mining or in which economic processing of a mineral reserve has commenced. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves. The net carrying value is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined.

Notes to the consolidated financial statements (Continued)

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

The Group records the present value of the estimated cost of legal and constructive obligations (such as those under the consolidated entity's Environmental Policy) to restore operating locations in the period in which the obligation is incurred. Site restoration costs include the dismantling and removal of plant and equipment, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs and current legal requirements and technology.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

i) Financial instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the provisions to the instrument. For financial assets, this is equivalent to date that the Group commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified as 'fair value through profit and loss', in which case the costs are expensed to the profit or loss immediately.

Classification and subsequent measurement
Financial instruments are subsequently measured at either fair value or amortised cost using the effective interest method or cost. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value.

The Group does not designate any interest in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments:

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets except for those not expected to mature within twelve (12) months after the end of the reporting period.

(ii) Financial liabilities
Non-derivative financial liabilities are subsequently measured at cost.

Impairment
At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

j) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not probable to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivables.

Notes to the consolidated financial statements (Continued)

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

l) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at their fair value and subsequently amortised cost using the effective interest rate method.

Trade and other payables are stated at amortised cost.

m) Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries or associates and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

n) Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

p) Earnings per share

i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Notes to the consolidated financial statements (Continued)

ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

r) Share-based payments

The Group has provided payment to related parties in the form of share-based compensation, whereby related parties render services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes methodology depending on the nature of the option terms. The fair value in relation to performance rights is calculated using a Monte Carlo simulation.

The Black-Scholes option pricing model takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The Monte Carlo simulation used in pricing the performance rights takes into account the target share price resulting from meeting the KPI, the term of the right, the share price at grant date and expected price volatility of the underlying share and the risk-free interest rate for the term of the option.

The fair value of the options and performance rights granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to become exercisable / vested. At each reporting date, the entity revises its estimates of the number of options and performance rights that are expected to become exercisable / vested.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled, award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

s) Employee benefits

The Group provides post-employment benefits through various defined contribution plans.

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The Group contributes to several plans and insurances for individual employees that are considered defined contribution plans. Contributions to the plans are recognised as an expense in the period that relevant employee services are received.

Employee benefits, including annual leave entitlement, are included in 'employee provisions', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Notes to the consolidated financial statements (Continued)

t) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

u) Parent entity

The financial information of the parent entity, Quantum Graphite Limited (formerly Valence Industries Limited), disclosed in the notes to the financial report has been prepared on the same basis as the consolidated financial statements.

v) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends of economic data, obtained both externally and within the Group.

i) Key estimates

Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Decommissioning provision

Estimates and assumptions of the appropriate discount rate at which to discount the liability, the timing of cash flows, the application of relevant environmental legislation and the future expected costs of decommissioning are all used in determining the carrying value of the decommissioning provision. The carrying amount of the provision is set out in Note 14.

ii) Key judgements

Development expenditure

The future recoverability of fixed assets and capitalised development expenditure relating to a cash generating unit (CGU) is dependent on a number of factors, including commodity prices, the level of reserves and resources, foreign currency rates and future technological changes that could impact the costs of mining and processing and future legal changes.

Significant judgements and assumptions are required in making estimates of recoverable amounts. This is particularly so in the assessment of long life assets. CGU valuations are subject to variability in key assumptions including, but not limited to, long-term commodity prices, currency exchange rates, discount rates, and production and operating costs. An adverse change in one or more of the assumptions could result in a reduction in a CGU's recoverable amount.

Life-of-mine operating cost assumptions reflect the expectation that costs will, over the long term, have a degree of positive correlation to the prevailing commodity price and exchange rate assumptions.

Notes to the consolidated financial statements (Continued)

After assessing the recoverable amount of the Uley Graphite™ project against its carrying value, no impairment charges were recognised for the current financial year.

If a variation in the key assumptions used to determine recoverable amount had a negative impact on recoverable amount, it could indicate a requirement for impairment to non-current assets. To the extent that capitalised development, plant and equipment is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

Exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

iii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors with reference to quoted market prices or using the Black-Scholes valuation method or the Monte Carlo valuation method as appropriate taking into account the terms and conditions upon which the equity instruments were granted. The assumptions in relation to the valuation of the equity instruments are detailed in Note 22. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

w) Adoption of the new and revised accounting standards

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2015:

Management has reviewed the requirements of the above standards and has concluded that there was no effect on the classification or presentation of balances.

x) Recently issued accounting standards to be applied in future accounting periods

The accounting standards that have not been early adopted for the year ended 30 June 2016, but will be applicable to the Group in future reporting periods are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future reporting periods, however they have been considered insignificant to the Group.

(i) AASB 9 Financial Instruments (December 2014)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.

Notes to the consolidated financial statements (Continued)

- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - the change attributable to changes in credit risk are presented in Other Comprehensive Income ("OCI"); and
  - the remaining change is presented in profit or loss.

  If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

  Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:
  - classification and measurement of financial liabilities; and
  - derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting. When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

(ii) *AASB 15 Revenue from Contracts with Customers*

AASB 15:

- replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations;
- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time;
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
- expands and improves disclosures about revenue.

When this Standard is first adopted for the year ending 30 June 2018, there will be no material impact on the transactions and balances recognised in the financial statements.

(v) AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.
The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

a. The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
b. When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

Notes to the consolidated financial statements (Continued)

(vi) *AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.*
The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order; and
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

Other standards not yet issued and not expected to impact on the Group:

- *AASB 2014-5 Amendments to Australian Accounting Standards arising from the issuance of AASB 15*
- *AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. EXPENSES

2016	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	958,708	355,414	1,825,778	3,139,900
Depreciation	110,943	-	-	110,943
Advanced products research	-	96,144	-	96,144
Other	1,622,424	219,432	1,916,530	3,758,386
Total	2,692,075	670,990	3,742,308	7,105,373

2015	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	1,179,056	650,119	1,937,086	3,766,261
Depreciation	213,169	-	-	213,169
Advanced products research	-	250,384	-	250,384
Other	3,340,480	397,286	2,114,712	5,852,478
Total	4,732,705	1,297,789	4,051,798	10,082,292

Commercialisation expenses include sales and marketing and other expenses directed towards the development of value-added products and associated markets. Pre-commissioning expenses include costs of establishing operational readiness at Uley and pre-production testing of the Phase I plant.

3. INCOME TAX EXPENSE

	2016 $	2015 $
(a) The components of income tax expense comprise:		
Current income tax (expense) / benefit	153,855	(373,904)
(b) The prima facie tax loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Net gain / (loss)	(11,272,977)	(9,934,579)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(3,381,893)	(2,980,374)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	315,304	(349,582)
Deferred tax asset not realised as recognition criteria not met	3,066,589	3,329,956
Subtotal	-	-
Research and Development Refund	153,855	-
Tax portion of capital raising cost	-	(373,904)
Income tax (expense) / benefit	153,855	(373,904)

3. INCOME TAX EXPENSE (CONTINUED)

	2016 $	2015 $
(c) Deferred tax assets have not been recognised in respect of the following:		
Tax losses	27,461,056	19,575,687
Deferred tax asset has not been recognised	8,238,317	5,872,706

Future utilisation of the tax losses will be subject to the satisfaction of continuity of ownership or continuity of business test. The assessment regarding the utilisation has not yet been completed.

4. EARNINGS PER SHARE

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2016 #	2015 #
Weighted average number of shares used in basic earnings per share	198,627,705	183,163,916
Loss per share - basic and diluted (cents)	5.60	5.63

In accordance with AASB 133 ‘Earnings per Share’ there cannot be any dilutive securities as the Company made a loss for the year.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2016 $	2015 $
Cash at hand and in bank:		
Cash at bank	46,794	709,449
Share subscription monies held by share registry on trust (1)	-	879,358
Cash and cash equivalents	46,794	1,588,807

(a) Reconciliation of cash at the end of the year.

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	46,794	1,588,807

(1) Subscription monies from the renounceable rights issue which closed on 25 June 2015 totalling $879,358 were held by the Company’s share registry. Funds were transferred to Valence Industries on 2 July 2015 following issue of the associated shares.

6. TERM DEPOSITS (RESTRICTED CASH)

	2016 $	2015 $
Opening balance	1,708,776	-
Rehabilitation bond – MLs 5561 & 5562 – paid/(refunded)	(628,776)	1,708,776
Closing balance	1,080 000	1,708,776

Pursuant to the Company's obligations under the Uley Graphite™ Program for Environment Protection and Rehabilitation (PEPR) approved on 23 December 2014 a rehabilitation bond of $1,708,776 was lodged. A term deposit is held as security against the bond. The rehabilitation bond was reassessed during the period and the required term deposit was reduced to $1,080,000 with the excess refunded.

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables include the following:

Trade receivables	-	30,815
Other receivables	30,670	203,673
Total receivables	30,670	234,488

No receivables are considered past due and / or impaired.

8. DEVELOPMENT EXPENDITURE

Opening balance	5,351,664	-
Additions during the year:		
- Ore Reserve and Resource definition	47,256	1,739,567
- Decommissioning asset provision	-	558,369
- Tailings Storage Facility	1,354,855	2,465,694
- Other development expenditure	-	588,034
Closing balance	6,753,775	5,351,664

All development expenditure relates to the Company's Uley Graphite™ operation.

9. EXPLORATION AND EVALUATION EXPENDITURE

	2016 $	2015 $
Opening balance	1,318,979	356,763
Expenditure on exploration during the year	96,726	962,216
Closing balance	1,415,705	1,318,979

10. PLANT AND EQUIPMENT

2016	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office equipment $	Total $
Gross carrying amount					
Opening balance	786,758	7,744,565	189,939	20,520	8,741,782
Additions	37,853	-	-	-	37,853
Disposals	-	-	(150,373)	-	(150,373)
Balance 30 June 2016	824,611	7,744,565	39,566	20,520	8,629,262
Depreciation and impairment					
Opening balance	(138,058)	-	(42,040)	(7,599)	(187,697)
Depreciation	(179,883)	-	-	(4,483)	(184,366)
Disposals	-	-	42,040	-	42,040
Impairment	-	(162,438)	(39,566)	-	(202,004)
Balance 30 June 2016	(317,941)	(162,438)	(39,566)	(12,082)	(532,027)
Carrying amount 30 June 2016	506,670	7,582,127	-	8,438	8,097,235

10. PLANT AND EQUIPMENT (CONTINUED)

2015	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office equipment $	Total $
Gross carrying amount					
Opening balance	146,623	1,675,027	91,649	9,242	1,922,541
Additions	674,105	6,069,538	107,509	14,975	6,866,127
Disposals	(33,970)	-	(9,219)	(3,697)	(46,886)
Balance 30 June 2015	786,758	7,744,565	189,939	20,520	8,741,782
Depreciation and impairment					
Opening balance	(73,904)	-	(11,130)	(4,373)	(89,407)
Depreciation	(98,124)	-	(40,129)	(6,923)	(145,176)
Disposals	33,970	-	9,219	3,697	46,886
Balance 30 June 2015	(138,058)	-	(42,040)	(7,599)	(187,697)
Carrying amount 30 June 2015	648,700	7,744,565	147,899	12,921	8,554,085

11. TRADE AND OTHER PAYABLES

Trade and other payables, which are all current, recognised in the statement of financial position can be analysed as follows:

Trade and other payables[1]	5,871,300	3,497,118
Accrued expenses	48,978	2,012,253
Total trade and other payables	5,920,278	5,509,371

(1) The total trade and other payables balance at 30 June 2016 will be subject to the DOCA.

12. EMPLOYEE PROVISIONS

All provisions are considered current. The carrying amounts may be analysed as follows:

Opening balance	150,813	1,878
Additions / (Reductions) provisions – employee entitlements	(92,194)	148,935
Closing balance	58,619	150,813

13. BORROWINGS

The Group's borrowings represent working capital funding, hire purchase of motor vehicles and funding of annual insurance premiums.

	2016 $	2015 $
Secured loan – Chimera Capital Limited	8,592,740	-
Motor vehicle hire purchase	-	41,212
Insurance premium funding	12,194	174,122
Total borrowings	8,604,934	215,334

14. REHABILITATION PROVISION

	2016 $	2015 $
Decommissioning provision		
Opening balance	558,369	-
Present value of expected future decommissioning costs	-	558,369
Closing balance	558,369	558,369

The provision represents the present value of estimated future decommissioning costs of the Uley Graphite™ site which at the reporting date was restricted to removal of the Phase I processing plant and associated infrastructure and rehabilitation of a portion of the Uley Pit 2 and water treatment areas. The estimated provision brought to account is reflective of the stage of development of the Uley Graphite™ project.

15. SHARE SUBSCRIPTIONS RECEIVED

	2016 $	2015 $
Opening balance	879,358	-
Share subscription monies received	-	879,358
Transfer to issued capital (Note 16(b))	(879,358)	-
Closing balance	-	879,358

The Company announced a pro-rata renounceable rights issue on 7 May 2015 at 29 cents per share, with one free attaching option (in the same class as existing quoted options) for every two shares subscribed. The offer closed on 25 June 2015 with the Company receiving acceptances for a total of 3,032,270 shares to raise $879,358. The shares were issued on 2 July 2015.

16. ISSUED CAPITAL

	Number of shares	2016 $
(a) Issued and paid up capital		
Fully paid ordinary shares	199,016,214	27,906,146
	199,016,214	27,906,146
(b) Movements in fully paid shares		
Opening balance	193,921,277	27,906,146
Rights Issue – July 2015	3,032,270	879,358
Placement (Settlement of claim) – September 2015	2,062,500	412,500
Issue of shares upon exercise of options	167	42
Issue costs (net of tax)	-	(42,322)
Balance as 30 June 2016	199,016,214	29,155,724

	Number of shares	2015 $
(a) Issued and paid up capital		
Fully paid ordinary shares	193,921,277	27,906,146
	193,921,277	27,906,146
(b) Movements in fully paid shares		
Opening balance	168,165,350	13,898,624
Share Placement Plan (SPP)	982,187	687,531
Placement – September 2014	17,142,844	11,999,991
Placement – May 2015	7,117,665	2,064,123
Exercise of listed options	513,231	128,308
Issue costs (net of tax)	-	(872,431)
Balance as 30 June 2015	193,921,277	27,906,146

The share capital of Quantum Graphite Limited (formerly Valence Industries Ltd) consists only of fully paid ordinary shares. All shares are eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company.

None of the parent's shares are held by any company in the Group.

The shares do not have a par value and the Company does not have a limited amount of authorised capital.

16. ISSUED CAPITAL (CONTINUED)

In the event of winding up the Group, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

17. RESERVES

Balance of share based payments reserve

	2016 $	2015 $
Opening balance	831,049	1,096,180
Rights Issue of options during the year	-	149,463
Lapse of options	(96,084)	(84,594)
Lapse of performance rights	-	(330,000)
Closing balance	734,965	831,049

Share based payments are in line with the Quantum Graphite Ltd (formerly Valence Industries Limited) remuneration policy, details which are outlined in the director's report. Listed below are summaries of options and performance rights granted:

Share Option Reserve 2016	Number of options	2016 $	Weighted average exercise price
Opening balance	25,250,000	831,049	$0.44
Cancelled / lapsed	(4,000,000)	(96,084)	$1.10
Balance at 30 June 2016	21,250,000	734,965	$0.34

17. RESERVES (CONTINUED)

Share Option Reserve 2015	**Number of options**	**2015 $**	**Weighted average exercise price**
Opening balance	21,800,000	766,180	$0.25
Issue of unlisted options to directors	5,500,000	149,463	$1.10
Cancelled / lapsed	(2,050,000)	(84,594)	$0.25
Balance at 30 June 2015	25,250,000	831,049	$0.44

Nature and purpose of reserves

The share based payments reserve is used to recognise the fair value of all equity issued pursuant to share based payments.

18. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

Operating activities

	2016 $	**2015 $**
Loss after tax	(11,119,122)	(10,308,483)
Share based payments expense	-	(127,279)
Tax effect of capital raising costs	-	373,904
Debt raising costs	3,010,757	-
Depreciation expense	340,722	213,169
Impairment Expense	311,300	-
Loss on sale of assets	28,256	-
Decrease/(increase) in receivables	220,803	254,210
Increase/(decrease) in payables	963,979	1,829,064
Net cash used in operating activities	(6,243,305)	(7,765,415)

19. INVESTMENTS IN CONTROLLED ENTITIES

(a) Controlled Entities

The Company has the following subsidiaries:

Name of Subsidiary	Country of Registration	Class of Shares	Percentage held 2016	Percentage held 2015
Valence Industries Operations Pty Ltd (Subject to Deed of Company Arrangement)	Australia	Ordinary	100%	100%
Valence Industries Services Pty Ltd (In Liquidation)	Australia	Ordinary	100%	100%
Valence Industries Commercialisation Pty Ltd	Australia	Ordinary	100%	100%
Valence Industries USA Ltd	USA	Ordinary	100%	100%

20. AUDITOR REMUNERATION

	2016 $	2015 $
Audit services		
Auditors of Valence Industries Limited – Grant Thornton		
- Audit and review of Financial Reports	28,000	50,000
Audit services remuneration	28,000	50,000
Other services		
Auditors of Valence Industries Limited – Grant Thornton		
- Taxation compliance	6,010	33,050
Total other services remuneration	6,010	33,050
Total remuneration received by Grant Thornton	34,010	83,050

21. COMMITMENTS AND CONTINGENCIES

Exploration commitments

In order to maintain rights of tenure to exploration permits, the Group has certain obligations to perform minimum exploration work and expend minimum amounts of money.

Due to the nature of the Group's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature or amount of future expenditure. It will be necessary for the Group to incur expenditure in order to retain present interests in exploration licences.

Lease commitments

The Company has entered into two, four year operating leases in relation to office equipment. Minimum lease payments recognised as an expense during the period amount to $7,163. Remaining amounts due are:

	2016 $	2015 $
Within one year	7,814	7,814
After one year but not more than five years	7,815	15,629
Longer than five years	-	-
	15,629	23,443

The prior year commitments related to office and rental property operating leases which are now on a month to month basis.

The Group's operating lease agreements do not contain any contingent rent clauses.

Contingent liabilities

The Group has no contingent assets or liabilities.

22. RELATED PARTY TRANSACTIONS

The Group's related party transactions include its subsidiaries and key management personnel.

(a) Transactions with subsidiaries

Loans between entities in the wholly owned Group are not interest bearing, unsecured and are payable upon reasonable notice having regard to the financial stability of the Company.

(b) Transactions with key management personnel

Key Management Personnel remuneration includes the following are disclosed in detail in the remuneration report:

	2016 $	2015 $
Short-term benefits	1,059,488	1,020,746
Post-employment benefits	57,726	45,171
Share based payments	-	149,463
Total remuneration	1,117,214	1,215,380

23. RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions occurred with KMP:

	2016 $	2015 $
Payment for professional services to entities associated with related parties	473,708	1,016,398
Payables for professional services at reporting date	118,347	59,395

24. EMPLOYEE REMUNERATION

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:	2016 $	2015 $
Salaries / contract payments for Directors and employees	3,139,900	4,664,659
Share based payments – Director and employee options and performance rights	-	149,463
Reversal of share based payment expense – lapsed options and performance rights	(96,084)	(276,742)
Employee entitlement provisions	(92,194)	134,731
Recruitment expense	25,300	151,749
Less: Transfer to exploration & development assets	-	(1,316,346)
	2,976,922	3,507,514

22. EMPLOYEE REMUNERATION (CONTINUED)

(b) Post-employment benefits expense

Expenses recognised for post-employment employee benefits are analysed below:	2016 $	2015 $
Superannuation payments for Directors and employees	147,810	258,746

(c) Share based employee remuneration

As at 30 June 2016 the Group maintained a performance rights and option plan for employee and director remuneration. There were nil unlisted options granted to Directors as remuneration during the financial year.

In the prior period, the value of options with a market condition granted in the year is the fair value calculated at grant date using a Black-Scholes option-pricing model. The value of each option with a non-market condition such as the achievement of strategic objectives is based on the underlying share price at the grant date. The total value attached to these options takes into account the Company's best estimate at the grant date of the number of rights that will vest.

Share options and weighted average exercise prices are as follows:

2016	**Number of options**	**Weighted average exercise price ($)**
Opening balance - remuneration options	9,000,000	0.77
Granted as remuneration during 2015/16	-	-
Exercised / Forfeited / expired	(4,000,000)	1.10
Outstanding as at 30 June 2016	5,000,000	0.51

2015	**Number of options**	**Weighted average exercise price ($)**
Opening balance - remuneration options	5,550,000	0.25
Granted as remuneration during 2014/15	5,500,000	1.10
Exercised / Forfeited / expired	(2,050,000)	0.25
Outstanding as at 30 June 2015	9,000,000	0.77

Fair value of options granted

The fair value at grant date of the Director options has been determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The total for each category of financial instruments are as follows:

	Note	2016 $	2015 $
Financial assets			
Cash and cash equivalents	5	46,794	1,588,807
Term deposits (restricted cash)	6	1,080,000	1,708,776
Trade and other receivables	7	30,670	234,488
		1,157,464	3,532,071
Financial liabilities			
Trade and other payables	11	5,920,279	5,509,371
Borrowings	13	8,604,934	215,334
Subscriptions received	15	-	879,358
		14,525,213	6,604,063

Financial risk management policy
Risk management is carried out by the Managing Director and CEO under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate and credit risk.

a) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained for the coming months. Upcoming capital needs and the timing of equity and debt raisings are assessed by the board.

Financial liabilities are expected to be settled within 12 months.

b) Interest rate risk

The Group's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Cash is the only asset affected by interest rate risk as cash is the Group's only financial asset exposed to fluctuating interest rates.

23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

The Group is exposed to interest rate risk on cash balances and term deposits held in interest bearing accounts. The Board constantly monitors its interest rate exposure and attempts to maximise interest income by using a mixture of fixed and variable interest rates, whilst ensuring sufficient funds are available for the Group's operating activities. The Group's net exposure to interest rate risk at 30 June 2016 approximates the value of cash and cash equivalents.

c) Sensitivity analysis

Interest rate
The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

2016		**Effect on:**	
		Profit	**Equity**
	Sensitivity*	**$**	**$**
Interest rate	+ 1.50%	+187,800	+187,800
	- 1.50%	-187,800	-187,800

2015		**Effect on:**	
		Profit	**Equity**
	Sensitivity*	**$**	**$**
Interest rate	+ 1.50%	+103,200	+103,200
	- 1.50%	-103,200	-103,200

*The method used to arrive at the possible change of 150 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, interest rate movements ranged between 0 to 150 basis points. It is considered that 150 basis points a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.

The fair values of all financial assets and liabilities of the Group approximate their carrying values.

d) Net fair values of financial assets and financial liabilities

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amounts of all financial assets and liabilities approximate their net fair values and are disclosed as level 3 fair values.

24. PARENT ENTITY INFORMATION

Information relating to Valence Industries Limited (the parent entity).

	2016 $	2015 $
Statement of financial position		
Total assets	25,082,098	22,234,454
Total liabilities	9,441,697	1,900,217
Issued capital	29,155,724	27,906,145
Accumulated losses	(14,418,405)	(8,402,957)
Share based payment reserve	903,082	831,049
Statement of profit of loss and other comprehensive income		
Loss for the period	6,111,532	2,862,265

The parent entity has not entered into a deed of cross guarantee nor are there any contingent liabilities at the end of the reporting period.

25. GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of the alternate basis of accounting representing a planned orderly realisation of assets and settlement of liabilities has resulted in the recoverable value of certain intangible and non-monetary assets being determined based on the Directors' assessment of fair value less cost to sell required impairments in accordance with AASB 136 Impairment of Assets. During the year ended 30 June 2016 the Group recorded a net cash outflow from operating and investing activities of $7.3 million and an operating loss of $11.1 million.

The Company's ability to continue as a going concern is contingent upon successfully raising additional capital and completion of the DOCA. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

26. OPERATING SEGMENTS

The Directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources have concluded that at this time there are no separately identifiable segments.

27. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the financial year on 15 July 2016 the Company appointed Laurence Fitzgerald and Michael Humphris of William Buck as Joint and Several Administrators of Valence Industries Ltd ("VXL"), Valence Industries Operations Pty Ltd ("VIO") and Valence Industries Services Pty Ltd ("VIS") (collectively referred to as "the Companies").

At a subsequent meeting of Creditors held on 19 October 2016 Creditors approved VXL and VIO entering into Interlocking Deeds of Company Arrangement ("IDOCA"). It was resolved Valence Industries Services Pty Ltd would be placed into liquidation.

27. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD (CONTINUED)

The key terms of the Deed of Company Arrangement ("DOCA") and Creditors' Trust submitted by Chimaera Capital Limited as trustee of the VXL General Liquidity Trust (the "Secured Creditor") for the restructure of both VXL and VIO and approved at the Creditors meeting on 19 October 2016 is as follows:

- The VXL General Liquidity Trust ("the Proponent") as senior secured lender to the Group coverts a minimum of 25% of trust indebtedness as at the date of the proposal (being 3 October 2016) of approximately $9.1 million ("the Current Advance") be converted into ordinary shares at the issue price of $0.00252 per share.
- The Proponent to advance a further amount to be no less than $2.5 million and up to $4.0 million for working capital post restructure ("the New Advance").
- Unsecured creditors of VXL and VIO will be entitled to convert their debt into equity at a price of $0.016 per share ($0.02 but issued at a discount of 20%).
- Key variables in determining the unsecured creditors level of shareholding post maturity of the Notes are:
    - Percentage of the Current Advance investors electing to convert into debt rather than secured convertible notes;
    - The amount of capital raised in the New Advance; and
    - The share price the Notes are converted at.
- 100% of the New Advance to convert into ordinary shares at the issue price $0.00252 per share.
- The balance of the unconverted Current Advance will be converted into secured converting notes ("the Notes") at the issue price of $0.85 per note.
- The Notes can be converted prior to re-quotation of VXL's stock on the Australian Securities Exchange or after an initial lock period of six months' post re-quotation.
- The Notes can be converted at the volume weighted average price of the ordinary shares of VXL but for no less than $0.016 per share.
- The Notes mature on 1 December 2018 at which point security will be completely relinquished.
- The table below illustrates the estimated shareholding percentage for unsecured creditors if the Notes are converted at the minimum price of $0.016 per share:

Estimated unsecured creditor shareholding at a minimum conversion price of $0.016	Additional Advance Raised $ 2,500,000	$ 4,000,000
25% of Current Advance converted prior to requotation	10.395%	8.944%
50% of Current Advance converted prior to requotation	9.374%	8.177%
100% of Current Advance converted prior to requotation	6.519%	5.917%

- The following table demonstrates the estimated shareholding spread if the minimum amount of $2.5 million is raised in the New Advance, the minimum percentage of 25% of the Current Advance convert to equity at a share price of $0.00252 and the Notes are converted at the minimum price of $0.016:

Shareholder	Number of Shares	Percentage of Shareholding
VXL Liquidity Trust	2,599,738,469	83.233%
Unsecured Creditors	324,695,598	10.395%
Existing Shareholders	199,016,244	6.372%
Total	**3,123,450,311**	**100.000%**

- This reflects the unsecured creditors of VXL and VIO would represent approximately 10.4% of the restructured share capital of VXL post DOCA and post restructuring.
- The Deed also provides all Administrator and legal costs to be covered out of funds from the New Advance.
- All verified priority creditor claims in VXL and VIO to be discharged (paid out in full) through funds made available from the New Advance.
- The existing board to resign and a new board of directors to be appointed. The transition of the board occurred on 18 November 2016.

27. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD (CONTINUED)

- The name of the Company was to change, which occurred on 18 November 2016, with Valence Industries Ltd becoming Quantum Graphite Ltd and Valence Industries Operations Pty Ltd becoming Quantum Graphite Operations Pty Ltd.
- The original IDOCA was executed on 17 November 2016 with a Varied IDOCA executed on 22 December 2016.
- The implementation of the DOCA proposal is, once the Deeds of Company Arrangement are executed, conditional on a number of further milestones being achieved:
    - Milestone 1 – Each of the companies executing a Creditor's Trust Deed within 5 Business Days of executing the DOCA or such further time as required if an application to Court is made for approval.
    - Milestone 2 – The Secured Creditor making the Additional Trust Advance within 30 days of the execution of the Creditors Trust Deed.
    - Milestone 3 – within 15 days of after the end of the period in Milestone 2 or 45 days of the DOCA being signed, the holding of a shareholders meeting at which the shareholders approve the entry by the companies into the Deed of Restructure and Compromise.
    - Milestone 4 – within three months after Milestone 3 is achieved all required approvals of the ASX being obtained for the restructure and re-listing of VXL.

The restructure by the VXL Liquidity Trust requires that a creditors' trust be established to allow for VXL and VIO to exit administration following approval and execution of the DOCA. The establishment of a creditors' trust extinguishes the companies' liabilities and transfers the liabilities to a trust created with the creditors being installed as beneficiaries. This exit from external administration will allow for the process to have VXL securities requoted on the ASX to commence immediately, which in turn will provide value to the securities issued to creditors as part of the proposed restructure.

On 19 July 2016 the Minister for Mineral Resources and Energy draw down $100,000 of the rehabilitation bond, which brings the balance held on term deposit to $0.98 million.

The expiry date for a total of 73,402,418 listed options and 3,500,000 unlisted options with an exercise price of 25 cents was 31 July 2016. These options were not exercised and lapsed post year end.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Directors' Declaration

In the opinion of the Directors of Valence Industries Limited:

a) the consolidated financial statements and notes of Valence Industries Limited are in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the financial period ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b) there are reasonable grounds to believe that Valence Industries Limited will be able to pay its debts when they become due and payable.

The directors have been given the declaration required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

The consolidated financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Sal Catalano
Director
7 April 2017

Bruno Ruggiero
Director
7 April 2017

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUANTUM GRAPHITE LIMITED

Report on the financial report

We have audited the accompanying financial report of Quantum Graphite Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion
In our opinion:

a the financial report of Quantum Graphite Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Emphasis of matter – Realisation basis of accounting
Without modifying our opinion, we draw attention to the Basis of Preparation (realisation basis) in Note 1a) to the financial report, which indicates that the company has decided to continue preparing the financial statements on the realisation basis until such time as the restructure and recapitalisation is complete.

Grant Thornton

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12-16 of the directors' report for the year ended 30 June 2016.

In our opinion, the Remuneration Report of Quantum Graphite Limited, for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 7 April 2017

ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 29 March 2017.

The Company is listed on the Australian Securities Exchange.

Substantial shareholders

The substantial shareholder at the date of this report is Strategic Energy Resources Limited - 10.95%.

Voting rights

Ordinary shares	On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
Options	No voting rights.
Performance Rights	No voting rights.

Distribution of equity by security holders

Holding	**Ordinary Shares (Quoted)**
1 – 1,000	172
1,001 – 5,000	1,265
5,001 – 10,000	761
10,001 – 100,000	1,564
100,001 and over	265
Number of Holders	**4,027**

Unmarketable parcels

There were 1,168 holders of less than a marketable parcel of ordinary shares ($500 amounts to 4,348 shares at 11.5 cents per share).

Restricted securities

The escrowed securities, subject to ASX restriction are as follows:

Unquoted	
Options ($0.25 expiry 31 July 2016)	3,875,000

Business objectives

The Company has used its cash and assets readily convertible to cash in a way consistent with its business objectives.

On-market buy-back

There is no current on-market buy-back.

Twenty largest holders of All Ordinary Shares on issue

		No. of Shares Held	% Held
1	Strategic Energy Resources Ltd	21,788,907	10.95%
2	Avatar Energy Pty Ltd	7,051,606	3.54%
3	E E R C Australasia Pty Ltd (Super Fund A/C)	6,631,470	3.33%
4	Mr Carl Eric Holt & Mrs Lorraine Holt (Holt Super Fund A/C)	3,750,000	1.88%
5	Mr Mark Anthony Muzzin	3,304,954	1.66%
6	Citicorp Nominees Pty Limited	2,989,308	1.50%
7	G & N Lord Superannuation Pty Ltd (GNR Superannuation Fund A/C)	2,800,000	1.41%
8	Laguna Bay Capital Pty Ltd	2,610,000	1.31%
9	Chimaera Capital Limited	2,217,500	1.11%
10	Rio Tinto Exploration Pty Limited	2,062,500	1.04%
11	J P Morgan Nominees Australia Limited	1,756,615	0.88%
12	Ozsun Investments Pty Ltd	1,735,715	0.87%
13	Mr Ian David Pattison & Ms Katherine Margaret Forrest (Sylvan Super Fund A/C)	1,680,000	0.84%
14	Whitesman Investments Pty Ltd (Whitesman Super Fund A/C)	1,597,120	0.80%
15	Wattle Laboratories Pty Ltd (Advanced Culture Systems A/C)	1,535,029	0.77%
16	Insync Investments Pty Ltd (Weekley Super Fund No 1 A/C)	1,530,000	0.77%
17	HSBC Custody Nominees (Australia) Limited	1,490,590	0.75%
18	National Nominees Limited (DB A/C)	1,342,409	0.67%
19	Westcap Pty Ltd	1,300,000	0.65%
20	BNP Paribas Noms Pty Ltd (DRP A/C)	1,265,099	0.64%
		70,438,822	35.37%
	Total Ordinary Shares on issue	199,016,214	100.00%