QUANTUM GRAPHITE LIMITED
(Formerly Valence Industries Limited)
ABN 41 008 101 979
(Subject to Deed of Company Arrangement)

Interim Financial Statements

for the half-year ended 31 December 2015
to be read in conjunction with the 30 June 2015 Annual Report

Contents

This Interim Report covers Quantum Graphite Limited (formerly Valence Industries Limited) (Subject to Deed of Company Arrangement) ("Quantum", "Valence" or the "Company") as a Group consisting of Quantum Graphite Limited (formerly Valence Industries Limited) 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.

Registered Office	349 Collins Street Melbourne VIC 3000
Principal place of Business	349 Collins Street Melbourne VIC 3000
Website	www.valenceindustries.com

Directors' Report

The Directors of Quantum Graphite Limited (formerly Valence Industries Limited) (Subject to Deed of Company Arrangement) present their Report together with the financial statements of the consolidated entity, being Quantum Graphite Limited (formerly Valence Industries Limited) ("Valence" or "the Company") and its controlled entities ("the Group") for the half year ended 31 December 2015 and the Independent Review Report thereon.

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 12).

The following persons were directors of Valence during the period.

- Graham Spurling - Chairman (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 - Non-executive Director (resigned 18 November 2016)
- Christopher Darby - Managing Director & CEO (resigned 30 November 2015)
- Ian Schache - Non-executive Director (resigned 2 March 2016)

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)

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

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 will have 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 GraphiteTM 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.

The net loss for the Group, from the six months to 31 December 2015, was $7,083,364 (2014: $3,733,272) after providing for income tax.

Reflective of the current financial position of the company, the accounts at 31 December 2015 have been prepared on a realisation rather than going concern basis.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

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.

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 (“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.
- 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 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.

In the opinion of the Directors, other than noted above, there are 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.

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 6 of this financial report and forms part of this Directors' Report.

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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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 review of Quantum Graphite Limited for the half-year ended 31 December 2015, 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 review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

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 half year ended 31 December 2015

	Notes	31 December 2015 $	31 December 2014 $
Other income		677	4,989
Corporate expenses	2	(1,612,480)	(1,968,211)
Commercialisation expenses	2	(461,609)	(618,918)
Pre-commissioning expenses	2	(3,705,136)	(1,004,726)
Total operating loss		**(5,778,548)**	**(3,586,866)**
Interest revenue		32,228	151,611
Interest expense		(271,412)	(818)
Foreign exchange loss		(1,966)	(18,679)
Debt Raising Costs		(782,299)	-
Net financing income / (expense)		**(1,023,449)**	**132,114**
Impairment of Plant and Equipment		(191,469)	-
Impairment of Intangible Assets		(119,832)	-
Loss before tax		**(7,083,364)**	**(3,454,752)**
Income tax expense		-	(278,620)
Loss for the reporting period attributable to owners of the parent entity		**(7,083,364)**	**(3,733,272)**
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to owners of the parent entity		**(7,083,364)**	**(3,733,272)**
Loss per share from continuing operations			
Basic and diluted loss – cents per share	3	3.57	2.07

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

Consolidated Statement of Financial Position
As at 31 December 2015

	Notes	31 December 2015 $	30 June 2015 $
ASSETS			
Cash and cash equivalents		612,201	1,588,807
Term deposits (restricted cash)	4	1,080,000	1,708,776
Trade and other receivables		42,220	234,488
Inventory		6,280	6,280
Development expenditure	5	6,753,775	5,351,664
Plant and equipment	6	8,218,474	8,554,085
Prepayments		420,361	547,855
Intangible assets		35,064	214,578
Exploration and evaluation expenditure	7	1,414,589	1,318,979
TOTAL ASSETS		18,582,964	19,525,512
LIABILITIES			
Trade and other payables		6,338,117	5,509,371
Employee provisions		70,418	150,813
Borrowings	8	5,237,579	215,334
Provisions		558,369	558,369
Share subscriptions received		-	879,358
TOTAL LIABILITIES		12,204,483	7,313,245
NET (LIABILITIES)/ASSETS		6,378,481	12,212,267
EQUITY			
Issued capital	9	29,155,724	27,906,146
Reserves		831,049	831,049
Accumulated losses		(23,608,292)	(16,524,928)
TOTAL EQUITY		6,378,481	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 half year ended 31 December 2015

	Share capital $	Option / Rights reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2015	**27,906,146**	**831,049**	**(16,524,928)**	**12,212,267**
Issue of shares	1,291,858	-	-	1,291,858
Issue of shares upon exercise of options	42	-	-	42
Issue costs (net of tax)	(42,322)	-	-	(42,322)
Transactions with owners	1,249,578	-	-	1,249,578
Comprehensive income:				
Total loss for the reporting period	-	-	(7,083,364)	(7,083,364)
Total other comprehensive income for the reporting period	-	-	-	-
Balance 31 December 2015	**29,155,724**	**831,049**	**(23,608,292)**	**6,378,481**

	Share capital $	Option / Rights reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2014	**13,898,624**	**1,096,180**	**(6,354,297)**	**8,640,507**
Issue of shares	12,687,522	-	-	12,687,522
Issue of shares upon exercise of options	97,899	-	-	97,899
Issue costs (net of tax)	(650,101)	-	-	(650,101)
Transactions with owners	12,135,320	-	-	12,135,320
Comprehensive income:				
Total loss for the reporting period	-	-	(3,733,372)	(3,733,372)
Total other comprehensive income for the reporting period	-	-	-	-
Balance 31 December 2014	**26,033,944**	**1,096,180**	**(10,087,669)**	**17,042,455**

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

Consolidated Statement of Cash Flows
For the half year ended 31 December 2015

	31 December 2015 $	31 December 2014 $
Operating activities		
Payments to suppliers and employees	(5,167,940)	(3,121,683)
Interest paid	(21,690)	(818)
Interest received	32,229	180,830
Net cash used in operating activities	(5,157,401)	(2,941,671)
Investing activities		
Payments for plant and equipment	(245,952)	(4,449,234)
Payments for exploration expenditure	(221,268)	(115,273)
Payments for development expenditure	(1,280,159)	(1,161,773)
Investment in restricted term deposits	628,776	(1,708,776)
Proceeds from sale of fixed assets	45,000	-
Net cash used in investing activities	(1,073,603)	(7,435,056)
Financing activities		
Proceeds from issue of share capital	412,542	12,785,421
Capital raising costs	(116,842)	(928,720)
Drawdown of Loan	5,156,348	-
Repayment of Loan	(197,650)	(10,303)
Net cash from financing activities	5,254,398	11,846,398
Net change in cash and cash equivalents	(976,606)	1,469,671
Cash and cash equivalents, beginning of reporting period	1,588,807	6,853,383
Cash and cash equivalents, end of period	612,201	8,323,054

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

Notes to the financial statements
For the period ended 31 December 2015

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Alternate basis of preparation

The company reported a loss after tax of $7,083,364 (2014 $3,733,372) for the half year ended 31 December 2015. At reporting date, the company had accumulated losses of $23,608,292 and net assets of $6,378,481. The company has not traded since it was entered into a trading halt and subsequent voluntary suspension on 13 November 2015.

Based on current forecasts there is significant uncertainty as to the Company's ability to meet its 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.

b) 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.

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.

Given the uncertainties in valuing assets and liabilities, it is likely that the valuation of assets and liabilities included in these financial statements may differ from actual results.

c) Nature of operations

Quantum Graphite Ltd (formerly Valence Industries Limited) principal activity is the manufacture of high grade flake graphite products and the mining of and exploration for graphite deposits in South Australia.

d) General information and basis of preparation

The interim consolidated financial statements (the interim financial statements) of the Group are for the six months ended 31 December 2015 and are presented in Australian dollars($), which is the functional currency of the Group. These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 *Interim Financial Reporting.* They do not include all of the information required in annual financial statements in accordance with AIFRS, and should be read in conjunction with the financial statements of the Group for the year ended 30 June 2015 and any public announcements made by the Group during the half-year in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the board of directors on 3 April 2017.

e) 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 8.

2. EXPENSES

December 2015	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	713,366	164,958	1,672,707	2,551,031
Depreciation	97,708	-	-	97,708
Advanced products research	-	96,144	-	96,144
Other	801,406	200,507	2,032,429	3,034,342
Total	1,612,480	461,609	3,705,136	5,779,225

December 2014	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	622,966	240,322	500,138	1,363,426
Depreciation	28,232	-	-	28,232
Advanced products research	-	128,769	-	128,769
Other	1,317,013	249,827	504,588	2,071,428
Total	1,968,211	618,918	1,004,726	3,591,855

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. 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:

	6 months to December 2015	6 months to December 2014
Weighted average number of shares used in basic earnings per share	198,243,419	180,022,461
Loss per share (cents)	10.43	2.07

In accordance with AASB 133 'Earnings per Share', there are no dilutive securities.

4. TERM DEPOSITS (RESTRICTED CASH)

	31 December 2015 $	30 June 2015 $
Opening balance	1,708,776	-
Rehabilitation bond – MLs 5561 & 5562	(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 $1.709M 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 with $628k refunded to the Group.

5. DEVELOPMENT EXPENDITURE

	31 December 2015 $	30 June 2015 $
Opening balance	5,351,664	-
Additions during the year	1,402,111	5,351,664
Closing balance	6,753,775	5,351,664

The closing balance represents the director's assessment of the recoverable value of the mining permit and JORC resource associated with the Uley project.

6. PLANT AND EQUIPMENT

December 2015	**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	-	-	(100,683)	-	(100,683)
Balance 31 December 2015	824,611	7,744,565	89,256	20,520	8,678,952

The impairment recognised reflects the directors' assessment of the recoverable amount of these assets.

Depreciation and impairment					
Opening balance	(138,058)	-	(42,040)	(7,599)	(187,697)
Depreciation	(89,607)	-		(2,247)	(91,853)
Disposals	-	-	21,075	-	21,075
NRV Write down	-	(162,438)	(39,566)	-	(202,004)
Balance 31 December 2015	(227,664)	(162,438)	(60,531)	(9,846)	(460,479)
Carrying amount 31 December 2015	596,947	7,582,127	28,725	10,674	8,218,473

The carrying value reflects the director's assessment of the recoverable value of the plant and equipment.

6. 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

7. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2015 $	30 June 2015 $
Opening balance	1,318,979	356,763
Expenditure on exploration during the period	95,610	962,216
Closing balance	1,414,589	1,318,979

The impairment recognised reflects the director's assessment of the recoverable amount of these assets.

8. BORROWINGS

	31 December 2015 $	30 June 2015 $
Financing Loans	5,156,348	-
Insurance Premium Funding Loan	50,322	174,122
Motor Vehicle Loan	30,909	41,212
Closing balance	5,237,579	215,334

Assets pledged as security
The financing loan is secured by rights to the Mining Tenements owned. The Insurance Premium funding loan is secured by the refund proceeds of cancelled policies. The Motor vehicle loan is secured by the Vehicle purchased.

9. ISSUED CAPITAL

	Number of shares	31 December 2015 $
(a) Issued and paid up capital		
Fully paid ordinary shares	199,016,214	29,155,724

(b) Movements in fully paid shares	Number	$
Opening balance as 30 June 2015	193,921,277	27,906,146
Rights Issue – July 2015	3,032,270	879,358
Settlement of royalty claim with Rio Tinto Exploration Pty Ltd	2,062,500	412,500
Issue of shares upon exercise of options	167	42
Capital raising costs (net of tax)	-	(42,322)
Balance as 31 December 2015	199,016,214	29,155,724

10. 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.

11. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last reporting date.

12. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

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.

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 ("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.
- 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%

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

- 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 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.

In the opinion of the Directors there are 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 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 31 December 2015 and of its performance for the half-year ended on that date; and

   ii. complying with Accounting Standard 134 Interim Financial Reporting and the *Corporations Regulations 2001*; and

b) due to the uncertainty outlined in note 1(a)the Directors are unable to conclude that the Company will be able to continue as a going concern and be able to pay its debts when they become due and payable for the next 12 months.

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 REVIEW REPORT TO THE MEMBERS OF QUANTUM GRAPHITE LIMITED

We have reviewed the accompanying half-year financial report of Quantum Graphite Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Quantum Graphite Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Quantum Graphite Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Quantum Graphite Limited is not in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter – Realisation basis of accounting

Without modifying our conclusion, we draw attention to the Basis of Preparation (realisation basis) in Note 1b) to the financial report, which indicates that the company has decided to prepare the interim financial statements on the realisation basis until such time as the restructure and recapitalisation is complete.

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GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

J L Humphrey

Partner – Audit & Assurance

Adelaide, 7 April 2017