Quantum Graphite

ASX Appendix 4D
under ASX Listing Rule 4.21A

This reporting period	1 July 2016 to 31 December 2016
Prior corresponding period	1 July 2015 to 31 December 2015

RESULTS FOR ANNOUNCEMENT TO MARKET

	% Change	This Period	Prior Period
Total revenue from ordinary activities	(95.1%)	33	677
(Loss)/profit from ordinary activities after tax attributable to members	70.5%	(1,536,180)	(7,083,364)
Net (loss)/profit attributable to members	70.5%	(1,536,180)	(7,083,364)

DETAILS RELATING TO DIVIDENDS

No dividends are proposed and no dividends were declared or paid during the current or prior period.

NET TANGIBLE ASSETS

	As at 31 Dec 2016	As at 31 Dec 2015
Net tangible asset per ordinary share (cents per share)	(0.77)	(3.57)

DETAILS OF SUBSIDIARIES AND ASSOCIATES

During the period Valence Industries Services Pty Ltd was placed into liquidation.

OTHER

Additional Appendix 4D disclosure requirements and further information can be found in the Financial Report for the Half Year to 31 December 2016.

This report is based upon the Financial Report for the Half Year to 31 December 2016 which has been reviewed by Grant Thornton.

QUANTUM GRAPHITE LIMITED

ABN 41 008 101 979

(Subject to Deed of Company Arrangement)

Interim Financial Statements

for the half-year ended 31 December 2016
to be read in conjunction with the 30 June 2016 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.quantumgraphite.com

Directors' Report

The Directors of Quantum Graphite 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 2016 and the Independent Review Report thereon.

DIRECTORS

The following persons were directors of Quantum Graphite Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

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 – formerly Chairman and Independent Non-Executive Director *(resigned 18 November 2016)*
Robert Mencel – formerly Managing Director *(resigned 18 November 2016)*
Glenister Lamont – formerly Non-Executive Director *(resigned 18 November 2016)*
Ian Pattison formerly Independent Non-Executive Director *(resigned 18 November 2016)*

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

During FY2016, the Company pursued 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 ("VXL"), Valence Industries Operations Pty Ltd ("VIO") and Valence Industries Services Pty Ltd ("VIS").

At a 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.

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. On the same day Valance Industries Limited changed its name to Quantum Graphite Ltd and Valence Industries Operations Pty Ltd changed its name to Quantum Graphite Operations Pty Ltd. The original IDOCA was executed on 17 November 2016 with a Varied IDOCA executed on 22 December 2016.

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 original IDOCA was executed on 17 November 2016 with a Varied IDOCA executed on 22 December 2016.
- The implementation of the DOCA proposal once the Deeds of Company Arrangement were executed, was 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 Department of State Development ("DSD") drew down $100,000 of the rehabilitation bond and on 16 November 2016 the National Australia Bank transferred the balance $980,000 to the DSD. The DSD utilised $6,137 of the funds and retains the balance of $1,073,863 as security against the rehabilitation bond required to be held with the DSD.

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.

The net loss for the Group for the six months was $1,536,180 (2015: $7,083,366) after providing for income tax.

Reflective of the current financial position of the company, the accounts at 31 December 2016 have been prepared on a realisation rather than going concern basis.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the half year ending 31 December 2016 the expiry date of 31 July 2017 for a total of 1,500,000 unlisted options with an exercise price of $1.10 occurred. These options were not exercised and lapsed post period end.

A concurrent creditors meeting for Quantum Graphite Limited ("QGL") and Quantum Graphite Operations Pty Ltd ("QGO") was held on 5 October 2017 which approved a variation to the DOCA for each Company which was executed on 20 October 2017, and varied on 22 December 2016 to reflect the following:

- Removal of the requirement to establish a creditors' trust.
- Milestones for completing prescribed tasks amended as follows:

Number	Milestone	Varied Deadline	Second Variation Deadline
1	Execute DOCAs	Thursday, 17 November 2016	Thursday, 17 November 2016
2	Execute Trust Deed	Thursday, 9 February 2017	No longer required
3	Additional Trust Advance	Prior to shareholders' meeting	No later than the re-quotation of the Company's shares
4	Shareholders' Meeting	Friday, 31 March 2017	Thursday, 30 November 2017
5	ASX Re - Listing	Friday, 29 September 2017	Wednesday, 31 January 2018

- Removing the election for 'Current Advance' to take secured convertible notes rather than ordinary equity.
- Including provisions to restrict any single investor holding more than 20% in ordinary equity of the total issued capital of the Group upon implementation of the DOCA. Any entitlement to an interest greater than 20% shall be satisfied by the issue of options.
- The disclosure to the Administrators of all recipients of shares obtained through the conversion of secured and unsecured debt to ordinary equity.
- Amending the process for the issuance of shares and options.
- The Deed Administrators to ensure that the 'Implementation Board' remains in place for the duration and implementation of the DOCA's and to exercise such powers under sections 437A and 442A of the Act as is necessary to ensure expeditious implementation of the DOCA's.
- Security interest of Chimaera Capital Limited to be satisfied once shareholder approval is obtained and shares have been issued.

On 29 September 2017 the Company issued pursuant to ASX Listing Rule 7.1 29,852,400 shares to parties below in consideration for services provided in connection with:

- Compliance with the Uley Mine's Approved Program for Environment Protection and Rehabilitation;
- Ongoing maintenance at the Uley Mine site;
- Government relations including in respect of the Company's participation in the Quantum Energy Partnership battery tender submitted to the South Australian Government; and
- Geological and drill data management.

The shares were issued at a deemed price of $0.0252 as follows:

- 24,877,000 Shares (ranking equally with all existing Shares) issued to Tony Harbrow (or his nominee);
- 2,985,240 Shares (ranking equally with all existing Shares) issued to Thornton Group (Australia) Pty Ltd (or its nominee);
- 1,990,160 Shares (ranking equally with all existing Shares) issued to Robert Mencel.

The Annual General Meeting of the Company was held on 18 December 2017 and approved the following:

- The election of Mr Chadwick, Mr Ruggiero and Mr Catalano as directors of the Company;
- Approval to issue shares to unsecured creditors in relation to the conversion of their debt into equity in accordance with the terms of the DOCA up to a maximum of 500,000,000 shares.
- Approval of the issue of shares up to a maximum of 7,000,000,000 shares and 800,000,000 unlisted options to the Secured Creditor Beneficiaries in accordance with the DOCA: The entitlements of individual Secured Creditor Beneficiaries shall be determined by the Trustee and the Deed Administrators pursuant to the terms of the Trust and DOCA.
- Approval of the issue to Directors each quarter in advance commencing on 1 January 2018 of shares equivalent in value to one quarter of the Directors Entitlement. The deemed issue price of the Shares is the higher of $0.001 (0.1 cent) or the monthly VWAP for the month immediately preceding the month of issue of the Shares. The table below illustrates the minimum issue price of $0.001 (0.1 cents) which represents the maximum dilution.
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Director	**Foregone quarterly remuneration**	**Minimum Issue Price**	**Maximum no. of shares per quarter**	**Maximum no. of shares for the year**
Steven Chadwick	$18,000	$0.001	18,000,000	72,000,000
Sal Catalano	$18,000	$0.001	18,000,000	72,000,000
Bruno Ruggiero	$18,000	$0.001	18,000,000	72,000,000

At the AGM the Company received 37.6% votes against the resolution to adopt the 2016 Remuneration Report being a “Second Strike” this was after a full transition of the board and management team post the approval of the Deed of Company Arrangement in November 2016.

No other matters or circumstances have arisen since the end of the financial period 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
18 March 2018

Bruno Ruggiero
Director
18 March 2018

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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 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 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, 18 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2016

	Notes	31 December 2016 $	31 December 2015 $
Other income		33	677
Corporate expenses	2	(566,117)	(1,612,480)
Commercialisation expenses	2	(69,257)	(461,609)
Pre-commissioning expenses	2	(139,918)	(3,675,202)
Total operating loss		**(775,259)**	**(5,748,614)**
Interest revenue		22,692	32,228
Interest expense		(784,705)	(271,412)
Foreign exchange loss		-	(1,966)
Debt raising costs		(552,951)	(782,299)
Net financing income / (expense)		**(1,314,964)**	**(1,023,449)**
Impairment of plant and equipment		-	(191,469)
Impairment of intangible assets		-	(119,832)
Loss before tax		**(2,090,223)**	**(7,083,364)**
Income tax benefit / (expense)		554,043	-
Loss for the reporting period attributable to owners of the parent entity		**(1,536,180)**	**(7,083,364)**
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to owners of the parent entity		**(1,536,180)**	**(7,083,364)**
Loss per share from continuing operations			
Basic and diluted loss – cents per share	3	(0.77)	(3.57)

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

Consolidated Statement of Financial Position
As at 31 December 2016

	Notes	31 December 2016 $	30 June 2016 $
ASSETS			
Cash and cash equivalents		116,615	46,794
Term deposits (restricted cash)	4	-	1,080,000
Receivable from the Department of State Development	5	1,073,863	-
Trade and other receivables		78,023	30,670
Inventory		6,280	6,280
Development expenditure	6	6,753,775	6,753,775
Plant and equipment	7	8,039,464	8,097,235
Prepayments		13,750	47,088
Intangible assets		7,282	7,376
Exploration and evaluation expenditure	8	1,415,705	1,415,705
TOTAL ASSETS		17,504,757	17,484,923
LIABILITIES			
Trade and other payables		5,937,772	5,920,278
Employee provisions		59,242	58,619
Borrowings	9	10,142,831	8,604,934
Provisions		558,369	558,369
TOTAL LIABILITIES		16,698,214	15,142,200
NET ASSETS		806,543	2,342,723
EQUITY			
Issued capital	10	29,155,724	29,155,724
Reserves		40,762	734,965
Accumulated losses		(28,389,943)	(27,547,966)
TOTAL EQUITY		806,543	2,342,723

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 2016

	Share capital $	Option / Rights reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2016	**29,155,724**	**734,965**	**(27,547,966)**	**2,342,723**
Lapse of listed/unlisted options and performance rights	-	(694,203)	694,203	-
Transactions with owners	-	(694,203)	694,203	-
Comprehensive income:				
Total loss for the reporting period	-	-	(1,536,180)	(1,536,180)
Total other comprehensive income for the reporting period	-	-	-	-
Balance 31 December 2016	**29,155,724**	**40,762**	**(28,389,943)**	**806,543**

	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 and performance rights	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**

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 2016

	31 December 2016 $	31 December 2015 $
Operating activities		
Receipts from customers	33	-
Payments to suppliers and employees	(706,961)	(5,167,940)
Interest paid	(18,686)	(21,690)
Interest received	22,693	32,229
R&D Tax concession received	554,043	-
Net cash used in operating activities	(148,878)	(5,157,401)
Investing activities		
Payments for plant and equipment	-	(245,952)
Payments for exploration expenditure	-	(221,268)
Payments for development expenditure	-	(1,280,159)
Investment in restricted term deposits	-	628,776
Proceeds from sale of fixed assets	-	45,000
Net cash used in investing activities	-	(1,073,603)
Financing activities		
Proceeds from issue of share capital	-	412,542
Capital raising costs	-	(116,842)
Drawdown of Loan	218,699	5,156,348
Repayment of Loan	-	(197,650)
Net cash from financing activities	218,699	5,254,398
Net change in cash and cash equivalents	69,821	(976,606)
Cash and cash equivalents, beginning of reporting period	46,794	1,588,807
Cash and cash equivalents, end of period	116,615	612,201

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 2016

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Alternate basis of preparation

The company reported a loss after tax of $1,536,180 (2015 $7,083,364) for the half year ended 31 December 2016. At reporting date, the company had accumulated losses of $28,389,943 and net assets of $806,543. 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's 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 2016 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 2016 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 18 March 2018.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2. EXPENSES

December 2016	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	148,884	-	-	148,884
Depreciation	39,973	3,261	14,631	57,865
Other	377,260	65,996	125,287	568,543
Total	566,117	69,257	139,918	775,292

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	2,002,495	3,004,408
Total	1,612,480	461,609	3,675,202	5,749,291

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 2016	6 months to December 2015
Weighted average number of shares used in basic earnings per share	199,016,214	198,243,419
Loss per share (cents)	(0.77)	(3.57)

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

4. TERM DEPOSITS (RESTRICTED CASH)

	31 December 2016 $	30 June 2016 $
Opening balance	1,080,000	1,708,776
Rehabilitation bond – MLs 5561 & 5562	-	(628,776)
Drawdown/transfer of funds from Department of State Development	(1,080,000)	-
Closing balance	-	1,080,000

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 and this amount was subsequently revised down to $1,080,000. A term deposit was held as security against the bond.

The rehabilitation bond was reassessed during the year ending 30 June 2016 the required term deposit was reduced to $1,080,000 with the excess refunded. On 19 July 2016 the Department of State Development ("DSD") drew down $100,000 of the rehabilitation bond and on 16 November 2016 the National Australia Bank transferred the balance $980,000 to the DSD (refer Note 5).

5. RECEIVABLE FROM DEPARTMENT OF STATE DEVELOPMENT ("DSD")

	31 December 2016 $	30 June 2016 $
Opening balance	-	-
Drawn down/transfer of funds On Term Deposit	1,080,000	-
DSD expenses incurred	(6,137)	-
Closing balance	1,073,863	-

As per Note 4 the funds held in a term deposit as security for the rehabilitation bond were drawn down and transferred to the DSD during the six months ending 31 December 2016. During the year the DSD incurred expenses in relation to remedial works at the site.

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6. DEVELOPMENT EXPENDITURE

	31 December 2016 $	30 June 2016 $
Opening balance	6,753,775	5,351,664
Additions during the year	-	1,402,111
Closing balance	6,753,775	6,753,775

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

7. PLANT AND EQUIPMENT

December 2016	**Plant & Equipment $**	**Plant under construction $**	**Motor vehicles $**	**Office equipment $**	**Total $**
Gross carrying amount					
Opening balance	824,611	7,744,565	39,566	20,520	8,629,262
Additions/Disposals	-	-	-	-	-
Balance 31 December 2016	824,611	7,744,565	39,566	20,520	8,629,262
Depreciation and impairment					
Opening balance	(317,941)	(162,438)	(39,566)	(12,082)	(532,027)
Depreciation	(56,601)	-		(1,170)	(57,771)
Balance 31 December 2016	(374,542)	(162,438)	(39,566)	(13,252)	(589,798)
Carrying amount 31 December 2016	450,069	7,582,127	-	7,268	8,039,464

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

7. PLANT AND EQUIPMENT (CONTINUED)

June 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
NRV Write down	-	(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

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

8. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2016 $	**30 June 2016 $**
Opening balance	1,415,705	1,318,979
Expenditure on exploration during the period	-	96,726
Closing balance	1,415,705	1,415,705

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

9. BORROWINGS

	31 December 2016 $	30 June 2016 $
Financing Loans	10,130,637	8,592,740
Insurance Premium Funding Loan	12,194	12,194
Closing balance	10,142,831	8,604,934

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.

10. ISSUED CAPITAL

	Number of shares	31 December 2016 $
(a) Issued and paid up capital		
Fully paid ordinary shares	199,016,214	29,155,724

	Number	$
(b) Movements in fully paid shares		
Opening balance as 30 June 2016	199,016,214	29,155,724
Balance as 31 December 2016	199,016,214	29,155,724

11. 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.

12. CONTINGENT LIABILITIES

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

13. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the half year ending 31 December 2016 the expiry date of 31 July 2017 for a total of 1,500,000 unlisted options with an exercise price of $1.10 was achieved. These options were not exercised and lapsed post year end.

A concurrent creditors meeting for Quantum Graphite Limited ("QGL") and Quantum Graphite Operations Pty Ltd ("QGO") was held on 5 October 2017 which approved a variation to the DOCA for each Company which was executed on 20 October 2017, and varied on 22 December 2016 to reflect the following:

- Removal of the requirement to establish a creditors' trust.
- Milestones for completing prescribed tasks amended as follows:

Number	Milestone	Varied Deadline	Second Variation Deadline
1	Execute DOCAs	Thursday, 17 November 2016	Thursday, 17 November 2016
2	Execute Trust Deed	Thursday, 9 February 2017	No longer required
3	Additional Trust Advance	Prior to shareholders' meeting	No later than the requotation of the Company's shares
4	Shareholders' Meeting	Friday, 31 March 2017	Thursday, 30 November 2017
5	ASX Re - Listing	Friday, 29 September 2017	Wednesday, 31 January 2018

- Removing the election for 'Current Advance' to take secured convertible notes rather than ordinary equity.
- Including provisions to restrict any single investor holding more than 20% in ordinary equity of the total issued capital of the Group upon implementation of the DOCA. Any entitlement to an interest greater than 20% shall be satisfied by the issue of options.
- The disclosure to the Administrators of all recipients of shares obtained through the conversion of secured and unsecured debt to ordinary equity.
- Amending the process for the issuance of shares and options.
- The Deed Administrators to ensure that the 'Implementation Board' remains in place for the duration and implementation of the DOCA's and to exercise such powers under sections 437A and 442A of the Act as is necessary to ensure expeditious implementation of the DOCA's.
- Security interest of Chimaera Capital Limited to be satisfied once shareholder approval is obtained and shares have been issued.

On 29 September 2017 the Company issued pursuant to ASX Listing Rule 7.1 29,852,400 shares to parties below in consideration for services provided in connection with:

- Compliance with the Uley Mine's Approved Program for Environment Protection and Rehabilitation;
- Ongoing maintenance at the Uley Mine site;
- Government relations including in respect of the Company's participation in the Quantum Energy Partnership battery tender submitted to the South Australian Government; and
- Geological and drill data management.

The shares were issued at a deemed price of $0.0252 as follows:

- 24,877,000 Shares (ranking equally with all existing Shares) issued to Tony Harbrow (or his nominee);
- 2,985,240 Shares (ranking equally with all existing Shares) issued to Thornton Group (Australia) Pty Ltd (or its nominee);
- 1,990,160 Shares (ranking equally with all existing Shares) issued to Robert Mencel.

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

The Annual General Meeting of the Company was held on 18 December 2017 and approved the following:

- The election of Mr Chadwick, Mr Ruggiero and Mr Catalano as directors of the Company;
- Approval to issue shares to unsecured creditors in relation to the conversion of their debt into equity in accordance with the terms of the DOCA up to a maximum of 500,000,000 shares.
- Approval of the issue of shares up to a maximum of 7,000,000,000 shares and 800,000,000 unlisted options to the Secured Creditor Beneficiaries in accordance with the DOCA: The entitlements of individual Secured Creditor Beneficiaries shall be determined by the Trustee and the Deed Administrators pursuant to the terms of the Trust and DOCA.
- Approval of the issue to Directors each quarter in advance commencing on 1 January 2018 of shares equivalent in value to one quarter of the Directors Entitlement. The deemed issue price of the Shares is the higher of $0.001 (0.1 cent) or the monthly VWAP for the month immediately preceding the month of issue of the Shares. The table below illustrates the minimum issue price of $0.001 (0.1 cents) which represents the maximum dilution.
-

Director	Foregone quarterly remuneration	Minimum Issue Price	Maximum no. of shares per quarter	Maximum no. of shares for the year
Steven Chadwick	$18,000	$0.001	18,000,000	72,000,000
Sal Catalano	$18,000	$0.001	18,000,000	72,000,000
Bruno Ruggiero	$18,000	$0.001	18,000,000	72,000,000

At the AGM the Company received 37.6% votes against the resolution to adopt the 2016 Remuneration Report being a “Second Strike” this was after a full transition of the board and management team post the approval of the Deed of Company Arrangement in November 2016.

In the opinion of the Directors there are no other matters or circumstances have arisen since the end of the financial period 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 2016 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, the directors are unable to conclude whether Quantum Graphite will be a going concern or whether it will be able to pay its debts as and when they fall due for the next 12 months.

Signed in accordance with a resolution of the Directors:

Sal Catalano	Bruno Ruggiero
Director	Director
18 March 2018	18 March 2018

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Independent Auditor's Review Report
To the Members of Quantum Graphite Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Quantum Graphite Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Quantum Graphite Limited does not give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial reporting*.

Emphasis of Matter: Realisation Basis of Accounting

We draw attention to Note 1(a) in the financial statements, which indicates that there is significant uncertainty about the Group'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 have been prepared on a realisation basis representing a planned orderly realisation of assets and settlement of debts. The Group is currently in administration and its ability to continue as a going concern is contingent on successfully raising additional capital and completion of the Deed of Company Arrangement. Our conclusion is not modified in respect of this matter.

Directors' Responsibility for the Half Year Financial Report

The Directors of the Company 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 internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with 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 Group's financial position as at 31 December 2016 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.

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 have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 18 March 2018