



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX: VXL & VXLO QUARTER ENDING 30 SEPTEMBER 2015

Valence Industries Quarterly Activity Report



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

Valence Industries is Australia's only operating graphite company. Valence Industries currently mines and processes flake graphite products from its Uley Graphite facilities near Port Lincoln, South Australia for supply to customers globally.

Quarter Highlights

Operations

- Commissioning completed at Uley Graphite processing plant
 - Concentrate grades of up to 96% achieved on an intermittent basis
 - Completion of Tailings Storage Facility
 - Trucking commenced for transporting processed graphite above 92% from Uley operation to warehouse in Adelaide
- Required process plant improvements identified
 - Additional grinding and screening capacity needed to maintain consistent level of higher grade product output
 - Modest capital expenditure estimate of \$7m, subject to final design detail
 - Completion expected May 2016
- Part revision of expansion strategy
 - Following installation of additional grinding and screen capacity, Uley processing plant capacity set to increase from current 14,000tpa to 21,000tpa by August 2016



Finance Facility

- Completion of key technical due diligence for Initial Facility
- Reduction of overall debt facilities from planned level of US\$75m to US\$40m
 - Draw down under Initial Facility will be up to US\$20m
- Bridging Facility increased to A\$5m, with \$4.5m currently drawn to meet current requirements

Graphite Sales

- Binding three-year, multi-product graphite sales contract signed with new customer
- Contract with Asia Pacific based customer provides for sales in excess of US\$50m over next three years

Corporate

- New Managing Director Robert Mencil appointed, effective 1 December 2015
- Cost reduction program implemented

Current Operations

PRODUCTION

During the reporting period, the Uley Graphite operation achieved plant capacity of 21 tonnes per hour (tph) feed-in rate, and production graphite grades of up to 96% LOI (loss on ignition) were reached, however continuous and consistent output over weekly operating periods are still required. During the quarter, approximately 250 tonnes of graphite concentrate was produced. Transportation of concentrate above 92% has commenced from the Uley site to the Company's warehouse in Adelaide. Stock levels will continue to be progressively built up to match existing customer orders, with commercial export shipments to then follow.

Subsequent to the reporting period, the plant throughput rate at Uley has been reduced in the short-term. The plant is currently generating approximately 2 tonnes per day (tpd) of 92%-96% LOI product. This product is being used to meet sales and marketing requirements and to build stocks for initial commercial sales.

PROCESSING IMPROVEMENTS

An assessment of the Uley production facility by independent engineers Orway Mineral Consultants and internal engineers has identified bottleneck issues preventing the continuous production of high-grade graphite concentrate. At nameplate capacity of 21tph, installed secondary grinding, screening and bagging capacity were found to be undersized. A remediation plan has been developed to remove the bottlenecks, which when completed, will increase production capacity to 21,000 tonnes per annum, ramping up from between April to August 2016.

In recognition of the temporarily reduced processing rate, the Company has delayed any further mining activities at Uley Pit 2 until Q1 CY2016.

COMPLETION OF TAILINGS STORAGE FACILITY

During the reporting period, the deposit of tailings from the graphite processing stage was transferred from the process water ponds to the completed tailings storage facility.



Uley Pit 2 – Mining Overburden Removal (2015)

EXPLORATION

During the reporting period, Valence Industries advised of further high-grade graphite drilling results from the targeted extensional drill campaign at the Uley Graphite operation.

The campaign is focused on the Uley Pit 2 area and was designed to confirm the dip and continuity of the Uley Graphite lodes. It will also provide data for a detailed mining schedule.

The latest assays confirm that near-surface mineralisation extends across the strike length of the resource area in a southerly direction and within the Exploration Target Area, and indicates a reduced volume of pre-stripping overburden removal prior to mining activities.

Notable near-surface intersections include:

Hole_ID	Width (m)	Graphitic Carbon Grade (gC%)	From (m)	To (m)
MD641	2.0	28.8%	7.0	9.0
MD642	5.4	13.0%	11.8	17.2
MD654	5.6	11.1%	5.1	10.7

In addition, an initial review of current resource and reserves at Uley Pit 2 was completed during the reporting period and early analysis suggests the significant potential to generate lower cost, near surface reserves.

The review along with the latest assays will form part of an updated Uley Pit 2 mineral resource and reserve estimate, which, in line with recent updates to Valence's activities schedule, is planned for release in Q1 CY2016.

Expenditure on exploration activities amounted to \$118,000 and \$944,000 on development activities during the quarter.



TENEMENT LISTING

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

¹ Interests held as at the end of the quarter

Sales & Marketing

Valence Industries signed a binding three-year graphite sales contract with a new, Asia Pacific-based customer. The contract provides for sales in excess of US\$50 million during the period, with benchmark pricing under the sales contract exceeding the Company's weighted average price of US\$1,335 per tonne and includes take or pay provisions.

The customer, which cannot be disclosed due to contract confidentiality clauses, will purchase graphite for use in a wide range of industries including aluminium, steel, metallurgical, chemical, refractory, construction and expandable graphite products.

Delivery of the graphite is timed to match production from Valence Industries' existing Uley Graphite operation. First commercial sales are expected Q1 2016, once planned inventory build is complete.



Finance and Corporate

As a result of the lower capital expenditure required for the part expansion of production, Valence Industries advised of its intention to reduce its overall syndicated debt facilities from the previously planned level of US\$75 million to no more than US\$40 million. The draw down under the Initial Facility will be for an amount of up to US\$20 million.

During the reporting period, key technical due diligence for the Initial Facility was completed. Discussions are ongoing regarding the completion of the remaining due diligence with no major issues arising. Valence Industries acknowledges that this process has taken longer than expected and the exclusivity period with the financier has lapsed. If talks with the debt provider are delayed further, the Company is considering alternate funding options to ensure development plans for the Uley operation are not further delayed.

The Company's short-term financing requirements are currently being met through the secured bridging facility issued under the syndicated finance facilities. The bridging facility has been increased to A\$5 million, with \$A4.5m now drawn down by Valence Industries to meet current requirements.



CAPITAL STRUCTURE

The Company carried out a renounceable rights issue of one new share for every six shares held at an issue price of \$0.29 per share which raised \$0.88m. During the quarter 167 listed options were exercised at \$0.25.

Further, 2,062,500 shares were issued to Rio Tinto Exploration Pty Ltd with respect to concluding legacy royalties.

OVERHEAD COST REDUCTION PROGRAM

As part of remediation works to the Uley production facility, Valence Industries implemented an overhead cost reduction program during the quarter to reflect the lower throughput rate at the processing plant and to reduce site operating costs and cash outflows at both Uley and at the corporate office in Adelaide.

Under the program, the Company reduced workforce numbers by 60% and, together with corporate and plant operating efficiencies, the initiative is expected to deliver \$265,000 monthly cost savings. Valence Industries has retained key staff required to operate the Uley production facility at the lower feed-in rate and will, in the short-term, implement new onsite organisational structure and manning levels.

The Company will further review the workforce structure as production ramps up to the increased capacity of 21,000tpa in 2016.

Capital Structure

Shares: 199,016,214

Listed options: 57,152,418

Unlisted options: 25,250,000

Board of Directors & Officers

Graham Spurling, AM
Non-executive Chairman

Christopher S. Darby
Chief Executive Officer & MD

Robert Mencil
Deputy Managing Director

Glenister Lamont
Non-executive Director

Ian Pattison
Non-executive Director

Ian Schache
Non-executive Director

Jaroslav (Jarek) Kopias
Company Secretary & CFO

For further information, please contact:

Robert Mencil
Deputy Managing Director
Valence Industries

Jaroslav (Jarek) Kopias
CFO & Company Secretary
Valence Industries

info@valenceindustries.com
+61 8 8418 8564

Media and Investor Relations

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

**Competent Persons Statement**

Valence Industries confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed since the announcements previously released as “Valence Doubles Existing ROM Stockpiles” (6/8/14), “Uley Graphite Grade Increases to 11.7%” (17/11/14), “Maiden High Grade Graphite Ore Reserve” (17/12/2014) “VXL Feasibility Study Expansion and Adv Manufacturing” (2/1/15), “50% Increase in Uley Graphite Resource” (5/5/15), “Major Increase to Graphite Ore Reserve and Mine Life” (14/5/15) and “High Grade Graphite Mineralisation Continuity at Uley” (24/8/15).

Forward Looking Statements

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

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



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

Valence Industries Limited

ABN

41 008 101 979

Quarter ended ("current quarter")

30 September 2015

Consolidated statement of cash flows

		Current quarter	Year to date
		\$A'000	(3 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(118)	(118)
	(b) development	(944)	(944)
	(c) production	(1,605)	(1,605)
	(d) administration	(1,626)	(1,626)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	5	5
1.5	Interest and other costs of finance paid	(3)	(3)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(4,291)	(4,291)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(247)	(247)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	(247)	(247)
1.13	Total operating and investing cash flows (carried forward)	(4,538)	(4,538)



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(4,538)	(4,538)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
	Proceeds from subscriptions received		
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	3,300	3,300
1.17	Repayment of borrowings	(5)	(5)
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	(111)	(111)
	Other (movement in restricted cash – bond)		
	Net financing cash flows	3,184	3,184
	Net increase (decrease) in cash held	(1,354)	(1,354)
1.20	Cash at beginning of quarter/year to date	1,589	1,589
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	235	235

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

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	157
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' fees, superannuation and consulting fees paid to entities associated with Directors.	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	3,800	3,800
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	20
4.2 Development	4,500
4.3 Production	2,500
4.4 Administration	1,200
Total	8,220

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	235	1,589
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	-	-
Total: cash at end of quarter (item 1.22)	235	1,589

Changes in interests in mining tenements and petroleum tenements

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



Mining exploration entity and oil and gas exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities VXL/VXLAI	199,016,214	166,199,572		
7.4	Changes during quarter (a) Increases through issues Rights Issue - Options exercised - Share based (b) Decreases through returns of capital, buy-backs	3,032,270 167 2,062,500	3,032,270 167 2,062,500	29.00 cents 25.00 cents 20.00 cents	29.00 cents 25.00 cents 20.00 cents
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				



7.7	Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	VXLO/VXLAK	73,402,418	57,152,418	25.00 cents	31 July 16
	VXLAM	3,500,000 (vested)	-	25.00 cents	31 July 16
	VXLAP	4,000,000 (unvested)	-	110.00 cents	31 July 17 (KPI based)
	VXLAP	1,500,000 (vested)	-	110.00 cents	31 July 17
7.8	Issued during quarter	1,516,193	1,516,193	25.00 cents	31 July 16
7.9	Exercised during quarter	167	167	25.00 cents	31 July 16
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				



Compliance statement

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

Sign here: _____ Date: 30 October 2015

Company secretary

Print name: Jaroslaw (Jarek) Kopias

Notes

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