VALENCE INDUSTRIES

ASIA PACIFIC I EUROPE I NORTH AMERICA

4 March 2016 **ASX: VXL & VXLO**

AUSTRALIAN STOCK EXCHANGE ANNOUNCEMENT & MEDIA RELEASE

CORPORATE UPDATE

- **Operational and financial update**
- **Rights Issue to raise up to $18 million**
- **Production and development plans**

Valence Industries Limited ("**Valence**" or the "**Company**") (ASX: VXL, VXLO) refers to its request for voluntary suspension of the Company's securities pending finance discussions dated 17 November 2015 and the Operation Update dated 2 December 2016 regarding suspension of operations at Uley, and provides the following update.

OPERATIONAL AND FINANCIAL UPDATE

Since suspending operations at Uley, the new Managing Director and CEO, Robert Mencel has taken steps to minimise cash outgoings by further reducing operating and head office costs. The Company has retained a limited number of key staff to continue planning for the necessary work to address the processing and bottleneck issues at the Uley processing plant. The plans to address and rectify the processing are set out in more detail below.

With regard to financing, the Company has continued to actively investigate a number of potential corporate transactions, possible offers for the company and both debt and equity capital raising options, however none of these have yet progressed to a conclusion.

The Company's financial position includes secured debt of approximately $6.3 million and unsecured creditors of approximately $5.5 million, incurred primarily while the plant was operational last year. The Company appreciates the support of its creditors, however the existence of outstanding debt and creditors is an impediment to obtaining the implementation funding required by the Company to rectify the issues at Uley and return the plant to production.

To enable the Company to move forward, the Company needs to recapitalise its balance sheet, address its outstanding creditors, and secure working capital to stabilise its financial position.

NON RENOUNCEABLE RIGHTS ISSUE

After considering the strategic and financing options available to the Company, the Board has determined the best way forward is an equity issue in the form of a conditional rights issue, to be equitable to all shareholders and give current shareholders to first opportunity to recapitalise the Company and support their existing investment. The rights issue prospectus is planned to be released before the end of March 2016.

Patersons Securities Limited has been appointed to advise the Company, and as Lead Manager and Underwriter to a 9 for 1 issue at 1 cents per share to raise up to $18 million. Each new share subscribed will carry an attaching 1-for-2 free option exercisable at 1.5 cents on or before 31 December 2017.

The rights issue, which is proposed to be partially and conditionally underwritten, will see the first $3.5 million raised being available to the Company as working capital, with funds raised over that amount allocated first to retiring the secured debt facility, and then to payment of unsecured creditors.

The Rights Issue will have conditions precedent that, to the extent that the secured lenders are not fully repaid, their outstanding balance will be rescheduled into a 2 year 1.5 cent convertible secured note, and a condition precedent that to the extent that the unsecured creditors are not fully repaid their outstanding balance is converted into ordinary shares at 1 cent per share. The Company will be seeking the support of creditors to put the financing plan in place.

The Rights Issue will allow the Company to re-capitalise its balance sheet and remove current debt pressure, and be in a much stronger position to negotiate best possible terms for the balance of funding required to complete the plant rectification and upgrades, required to bring the Uley graphite operation into commercial production.

The directors of the Company recognise that board renewal is required and will commence a process to seek qualified replacement directors following completion of the equity recapitalisation with the intention of allowing the new Board to oversee the implementation of the plant modifications and upgrades to return to production.

PRODUCTION AND DEVELOPMENT PLANS

During the period of the Company's suspension, the new CEO has continued work on optimising plans for the plant.

The modifications to the plant have been identified, with an estimated cost of circa $7m which would also increase output by circa 50% to circa 21,000 tpa for the plant.

Met Test work, engineering	$1.0m
Regrinding circuit upgrade	$4.5m
Drying, Screening, Bagging Upgrade	$1.0m
Contingency	$0.5m
Total	$7.0m

The Company expects to require approximately $7m to $8m in working capital during this development phase to fund the period of ramping up production and sales. The Company continues to be in active and positive discussions with financiers regarding potential financial support for this development phase.

The project economics remain robust, and the Company believes it can become a lowest quartile cost producer of high grade flake graphite products.

The production plans indicate all in FOB cash costs of circa A$700/tonne based on a conservative average selling price of US$900/tonne (A$1,250/tonne) across the expected product range suggesting healthy margins once full productions rates are achieved. Based on current market activity and customer indications, the Company believes this price assumption is conservative, and that a selling price of towards US$1,000 (A$1,389) can be attained. This is especially the case for the higher grade products that the company has recently produced under a test work program in the plant, which demonstrated the ability to produce 97% TGC and 98% LOI flake graphite using additional grinding and flotation stages.

Customer interest for Uley graphite remains strong, with customer qualifications based on sample products continuing through this period.

Valence Managing Director Robert Mencel said *"The Uley Graphite project remains an outstanding project on a global basis. The Company has a world class graphite resource, and while engineering bottlenecks and production issues experienced to date have been costly, the new team in conjunction with external experts have the plans to rectify the issues.*

The financing plan will address the Company's balance sheet issues that have stopped our progress in recent months. We are encouraged by the positive discussions with financiers to date, and our ability to bring this to a conclusion will be greatly assisted by addressing our current financing issues.

The support of our shareholders, creditors and lenders for the Rights Issue is critical to protect the interests of all parties and to provide a platform for Valence to bring the project into production."

Continuing Suspension

The Company's shares will remain suspended from trading until completion of the Rights Issue, scheduled for 29 April 2016. If the Rights Issue is not successful and the Company is unable to source sufficient funds elsewhere, there is a real risk that the Company may default on its debt and creditor obligations. In those circumstances, the Company's lenders may wish to enforce their security over the Company's assets and sell those assets. Until the Rights Issue proceeds are received the financial viability of the Company remains uncertain and the Company is reliant on the continued support of its creditors.

The directors are of the opinion that if the Company's shares do not remain in suspension throughout this period, the Rights Issue offer may not be successful and the Company's ability to remain financially viable will be uncertain.

NEXT STEPS

Having resolved to proceed with the Rights Issue, the Company is now working on the offer documentation and Notice of Meeting to facilitate the Rights Issue in accordance with the requirements of the Corporations Act and the ASX Listing Rules, and will contemporaneously interact with secured creditors and unsecured creditors to make the issue successful.

For further information, please contact:

Investor enquiries:

Robert Mencel
Managing Director
info@valenceindustries.com
+61 8 8215 6400

Media enquiries:

Rebecca Lawson
Media & Capital Partners
rebecca.lawson@mcpartners.com.au
+61 433 216 269

Forward Looking Statements

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