



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX: VXL & VXLO QUARTER ENDING 31 DECEMBER 2015

Valence Industries Quarterly Activity Report



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

Valence Industries owns the Uley Graphite facilities near Port Lincoln, South Australia.

Quarter Highlights

Operations

- On 2 December, the Company advised that it was suspending processing activities at its Uley Graphite site. The existing production rate was uneconomic.
- A grinding test work program carried out on site demonstrating the ability to produce 97% TGC and 98% LOI from existing low grade product using additional grinding and floatation stages.

Finance Facility

- The company negotiated a lower bond obligation under the approved PEPR for the Uley Graphite operation. As a result of the lower obligation, the company was able to reduce its restricted cash by \$629,000.

Corporate

- The Company's Chief Operating Officer, Robert Mencil, was appointed Managing Director effective 1 December 2015.



Current Operations

PRODUCTION

During the December quarter 36 tonnes of saleable material was produced and transported to the Adelaide warehouse ranging from 91% to 96% LOI (*Loss on Ignition*).

During the quarter, the process plant input rate reached 25tph. The primary ball mill and the rougher float circuits operated at the design rate. However, at steady state, the installed re-grind circuit was found to be inadequate. As a result of insufficient regrind capacity, the average final product grade achieved was 75% TC.

By stopping new feed to the plant, and only regrinding and reprocessing the low grade product it was possible to make product grades up to 95%TGC. However the regrind rate was very slow and resulted in only 2 tonnes a day of product. This production rate is uneconomic.

On 2 December, the Company advised that it was suspending processing activities at its Uley Graphite site near Port Lincoln, South Australia.

The decision was made to preserve the Company's financial resources until a viable, long-term funding solution is achieved. Significant data regarding the plant's operation and costs were gained during the two months of production.

During the quarter, graphite sample preparation continued in support of sales and marketing efforts to potential and existing Valence Industries customers using existing stockpiled product at Uley.

As a result of the suspension of processing activities at Uley further redundancies took place on site and in corporate office in Adelaide, with only a core team of technical and marketing staff retained to ensure the processing plant is ready for a quick production restart once funding has been confirmed.

The immediate focus continues to be on rebuilding the capital of the Company and to re-establish it as a quality graphite producer.

PROCESSING IMPROVEMENTS

A limited Metallurgical test work program was carried onsite during the quarter.

The program primary aim was to identify, beyond the recognised grinding constraint, potential low cost process plant improvements, ideally utilising the original plant's equipment.

Results to date suggest further improvements in recovery and product grade could be achieved through the recommissioning of the existing Column Float Cell and Wet High Intensity Magnetic Separator.

A grinding test work program was also carried out onsite. The test work demonstrated the ability to produce 97 and 98% LOI in +35, +50, +150, +200 and +325 mesh sizes from existing low grade product using additional grinding and floatation stages. This is a significant technical achievement, with potential commercial implications.

The results from site test work will be used in scoping additional offsite metallurgical testing and flowsheet development.



Sales & Marketing

Valence Industries continues sales and marketing activities with ongoing qualifications of traditional flake graphite products in foils, lubricants, polymers, and agriculture under the brand names **StratGraff™** and **GraffPlus™**.

Domestic interest in Valence graphite products continues to grow with focus on polymers, lubricants, and agriculture markets including R&D activities in South and Western Australia.

Follow up qualifications of **HEATPRO™** Graphite products are planned with current refractory customers in response to changes in the global market and increases in the automotive industry.

These sales activities are intend to align with planned plant and process improvements to meet future sales agreements, new trial orders, and new customer interest both domestic and internationally.



EXPLORATION

During the reporting period, there were no exploration or production activities undertaken and no exploration or production is planned for the March 2016 quarter.

Expenditure on exploration activities amounted to \$1,000 and \$64,000 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



Finance and Corporate

On the 16 October 2015 the company advised that Chris Darby resigned as Managing Director and CEO of Valence industries, effective 1 December 2015. The Company's Chief Operating Officer, Robert Mencil, was appointed Managing Director effective 1 December 2015.

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

As at 31 December 2015, Valence Industries remains in suspension pending the outcome of its finance program to repay debt and fund its planned plant upgrade. A number of parties have been engaged in this process and their proposals are being assessed by the company. Valence Industries anticipates making further announcements with regard to its finance program during Q1 CY 2016.

During December the company negotiated a lower bond obligation under the approved PEPR for the Uley Graphite operation. This lower obligation reflects the Uley operations status moving to care and maintenance. As a result of the lower obligation, the company was able to reduce its restricted cash by \$629,000.

An updated PEPR is being prepared to reflect the care and maintenance status. Before operations can recommence, a further update to the PEPR will need to be submitted and approved prior to operations recommencing.

Capital Structure

Shares: 199,016,214

Listed options: 73,402,418

Unlisted options: 9,000,000

Board of Directors & Officers

Graham Spurling, AM
Non-executive Chairman

Robert Mencil
Managing Director

Glenister Lamont
Non-executive Director

Ian Pattison
Non-executive Director

Ian Schache
Non-executive Director

Jaroslav (Jarek) Kopias
Company Secretary

For further information, please contact:

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Managing Director
Valence Industries

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**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

Rule 5.5

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")

31 December 2015

Consolidated statement of cash flows

		Current quarter	Year to date
		\$A'000	(6 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	(1)	(119)
	(b) development	(64)	(1,008)
	(c) production	(672)	(2,277)
	(d) administration	(883)	(2,509)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	27	32
1.5	Interest and other costs of finance paid	(18)	(21)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(1,611)	(5,902)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(247)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	45	45
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	45	(202)
1.13	Total operating and investing cash flows (carried forward)	(1,566)	(6,104)



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,566)	(6,104)
	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	1,325	4,625
1.17	Repayment of borrowings	(5)	(10)
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	(6)	(117)
	Other (movement in restricted cash – bond)	629	629
	Net financing cash flows	1,943	5,127
	Net increase (decrease) in cash held	377	(977)
1.20	Cash at beginning of quarter/year to date	235	1,589
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	612	612

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	134
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	5,100	5,100
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	1,000
4.3 Production	200
4.4 Administration	300
Total	1,500

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	612	235
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)	612	235

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		



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 (b) Decreases through returns of capital, buy-backs				
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				
7.9	Exercised during quarter				
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: 29 January 2016

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.