VALENCE INDUSTRIES LIMITED
2015 ANNUAL REPORT

VALENCE
INDUSTRIES

VALENCE INDUSTRIES LIMITED

ABN 41 008 101 979

This Annual Financial Report covers Valence Industries Ltd ("Valence" or the "Company") as a Group consisting of Valence Industries Ltd and its subsidiaries, collectively referred to as the "Group". The financial report is presented in the Australian currency.

Valence is a company limited by shares, incorporated and domiciled in Australia.

CORPORATE DIRECTORY

DIRECTORS

Graham Spurling AM *Non-Executive Chairman*

Christopher Darby *Managing Director and Chief Executive Officer*

Glenister Lamont *Non-Executive Director*

Ian Schache *Non-Executive Director*

Ian Pattison *Non-Executive Director*

COMPANY SECRETARY

Jaroslaw (Jarek) Kopias Company Secretary and Chief Financial Officer

PRINCIPAL BUSINESS OFFICE

Ground Floor, 60 Hindmarsh Square
ADELAIDE SA 5000

Telephone: + 61 8 8215 6400

REGISTERED ADDRESS

Level 1, 67 Greenhill Road
WAYVILLE SA 5034

AUDITOR

Grant Thornton Audit Pty Ltd
Level 1, 67 Greenhill Road
WAYVILLE SA 5034

SOLICITOR

Watsons Lawyers
Ground Floor, 60 Hindmarsh Square
ADELAIDE SA 5000

HOME STOCK EXCHANGE

Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

ASX CODES

VXL Fully paid ordinary shares
VXLO Quoted options ($0.25 exercise price and 31 July 2016 expiry)

SHARE REGISTRY

Link Market Services Ltd
Level 1, 333 Collins Street
MELBOURNE VIC 3000

WEBSITE

www.valenceindustries.com

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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), "High Grade Mineralisation Extended at Uley Graphite" (12/3/15), "50% Increase in Uley Graphite Resource" (5/5/15) and "Major Increase to Graphite Ore Reserve and Mine Life" (14/5/15).

MINERAL RESOURCE & ORE RESERVES

ULEY 2

Mineral Resource and Ore Reserve estimates for Uley 2 as at 30 June 2015 are set out in the tables below, with a comparison to 30 June 2014 figures. All resources relate to graphite and are located at Uley in South Australia.

Mineral Resources and Ore Reserves were re-estimated at Uley 2 due to a re-interpretation of the mineralised envelopes following further grade control drilling. Otherwise, there was no material change to the methodology or assumptions underlying the estimates as at 30 June 2014. No mining was undertaken at Uley 2 for the period July 2014 to June 2015.

ULEY 2 MINERAL RESOURCE ESTIMATE

(100% Valence)

Classification	Cut-off (graphitic carbon %)	Tonnes (Mt)	Graphitic carbon (%)
Measured	3.5	0.36	17.51
Indicated	3.5	2.75	11.39
Inferred	3.5	1.44	10.61
Total as at 30 June 15	**3.5**	**4.54**	**11.63**
Total as at 30 June 14	**3.5**	**6.4**	**7.1**

Tonnages are dry metric tonnes and have been rounded. Small difference in totals may exist due to rounding.

ULEY 2 ORE RESERVE ESTIMATE

(100% Valence)

Classification	Cut-off (graphitic carbon %)	Tonnes (Mt)	Graphitic carbon (%)
Proved	3.5	0.34	17.6
Probable	3.5	2.58	11.4
Total as at 30 June 15	**3.5**	**2.92**	**12.1**
Total as at 30 June 14	**N/A**	**Nil**	**Nil**

Tonnages are dry metric tonnes and have been rounded. Small difference in totals may exist due to rounding.

Uley 2 maiden Ore Reserve declared during the 2014/15 financial year and update reported in May 2015. See announcements dated 17/12/14 and 15/5/15 for further information relating to the maiden Ore Reserve declaration.

ULEY STOCKPILES

The Mineral Resource estimate for the Uley Stockpiles as at 30 June 2015 are set out below, with a comparison to 30 June 2014 figures. Compared to the 30 June 2014 estimates, Uley Stockpile Mineral Resources were reestimated based on a grade control sampling program and were depleted based on mining completed to 30 June 2015.

ULEY STOCKPILES MINERAL RESOURCE INVENTORY

(100% Valence)

Classification	Tonnes	Graphitic carbon (%)
Indicated	170,514	6.23
Total as at 30 June 15	**170,514**	**6.23**
Total as at 30 June 14	**174,324**	**6.23**

Tonnages are dry metric tonnes and have been rounded. Small difference in totals may exist due to rounding.

MINERAL RESOURCES AND ORE RESERVES GOVERNANCE

The Company's Mineral Resources and Ore Reserves as at 30 June 2015 are reported in accordance with JORC (2012) guidelines.

The Mineral Resource and Ore Reserve estimates are completed by suitably qualified Independent Competent Persons. The estimates are based on industry standard techniques and standard company practices for public reporting.

The Company is satisfied with the procedures its Independent Competent Persons advise they have in place for Mineral Resource and Ore Reserve estimation.

The Mineral Resources and Ore Reserves statement included in the Annual Report is reviewed and approved by a suitably qualified Consulting Competent Person prior to its inclusion.

There are no historical estimates reported by the Company that have not been verified under JORC 2012.

COMPETENT PERSONS STATEMENTS

The Mineral Resources and Ore Reserves statement in this report has been approved by Ms Karen Lloyd who is an executive director of Jorvik Resources Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. Ms Lloyd consents to the inclusion in this report of the Mineral Resources and Ore Reserves statement in the form and context in which it appears.

The information in this report that relates to the Mineral Resource estimate at the Uley 2 is based on, and fairly represents, information which has been compiled by Ms Karen Lloyd and Ms Ellen Maidens. Ms Lloyd is an executive director of Jorvik Resources Pty Ltd and Member of the Australasian Institute of Mining and Metallurgy. Ms Maidens is a Member of the Australian Institute of Geologists and an Associate Geologist at Jorvik Resources Pty Ltd. Ms Lloyd and Ms Maidens have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that is being undertaken to qualify as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Ms Lloyd and Ms Maidens consent to the inclusion in this report of the matters based on their information in the form and context in which they appear.

The information in this report that relates to the Ore Reserve estimate at Uley 2 is based on, and fairly represents, information which has been compiled by Mr Harry Warries, who is a Fellow of the Australasian Institute of Mining and Metallurgy and a Principal at Mining Focus Consultants Pty Ltd. Mr Warries has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that is being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Warries consents to the inclusion in this report of the matters based on his information in the form and context in which they appear.

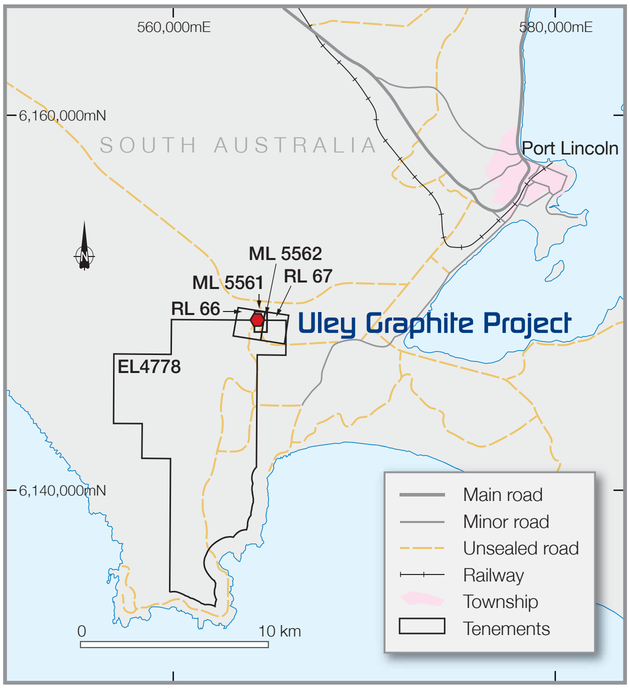
The information in this report that relates to the Mineral Resource estimates of the Uley Stockpiles is based on, and fairly represents, information which has been compiled by Ms Karen Lloyd who is an executive director of Jorvik Resources Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. Ms Lloyd has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that is being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Lloyd consents to the inclusion in this report of the matters based on her information in the form and context in which they appear.

TENEMENT SCHEDULE

As at 30 June 2015

Tenement number	Tenement name	Beneficial interest[1]	Area (sq km)
South Australia			
ML 5561	Uley Graphite Mining Licence 1	100%	44 ha
ML 5562	Uley Graphite Mining Licence 2	100%	22 ha
RL 66	Uley Graphite Retention Licence 1	100%	225 ha
RL 67	Uley Graphite Retention Licence 2	100%	185.5 ha
EL 4778	Uley South Exploration Licence	100%	75 km^2

1 *Interest held as at 30 June 2015*



Location of tenements over the Uley deposit and processing facilities.

FINANCIAL REPORT

For the year ended 30 June 2015

Valence Industries Limited
ABN 41 008 101 979

DIRECTORS' REPORT

The Directors of Valence have pleasure in submitting their report on the Company and its subsidiaries, for the year ended 30 June 2015.

DIRECTORS

The following persons were directors of Valence Industries Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Graham Spurling
(Chairman and Independent Non-Executive Director)

Christopher Darby
(Managing Director and Chief Executive Officer)

Glenister Lamont
(Non-Executive Director)

Ian Schache
(Independent Non-Executive Director)

Ian Pattison
(Independent Non-Executive Director)
(appointed 10 December 2014)

GRAHAM SPURLING, AM

ED FTSE BTech MechEng MAutoEng

Independent Non-Executive Chairman
(appointed 16 September 2013)

Experience and expertise

Mr Spurling is a qualified mechanical engineer and the former Managing Director and Chief Executive Officer of Mitsubishi Motors Australia. He has significant knowledge of both the foundry and battery industries directly relevant to graphite and a deep understanding and experience in global markets delivering productivity in manufacturing.

Special responsibilities

Member of audit committee.

Other current directorships of listed companies

Nil.

Other directorships held in listed companies in the last three years

Chairman of Phoenix Copper Limited (ASX:PNX, from 27 September 2007 to 21 November 2012)

Interest in shares

200,001 Ordinary Shares held by an entity in which Mr Spurling has a beneficial interest.

Interest in options

164,286 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Spurling has a beneficial interest.

500,000 Unlisted Options exercisable at $1.10 and expiry of 31 July 2017, held by an entity in which Mr Spurling has a beneficial interest.

CHRISTOPHER DARBY
BA LLB GAICD GDM(AGSM)

Managing Director & Chief Executive Officer
(appointed 16 September 2013)

Experience and expertise
Mr Darby joined the Company in September 2013 and is the Managing Director & Chief Executive Officer. He is a globally experienced director with particular experience in the governance, finance and strategic development of mining, energy and infrastructure companies and projects. He holds Bachelor's Degrees in Arts (Anthropology & International Politics) and Law, as well as postgraduate qualifications from the University of Sydney, Graduate School of Business (GAICD) and from the Australian Graduate School of Management (AGSM), University of New South Wales & University of Sydney (GDM(Exec)).

He has worked on and advised boards of public and private companies for over 20 years in the Asia Pacific, North America and Africa. He has extensive commercial, management, governance and operations experience with companies engaged in hard rock, oil, gas, energy, manufacturing, international procurement, engineering, industrial minerals and construction operations.

Mr Darby has current global graphite mining, processing and markets experience as an Executive Director and Co-founder of the Tech Minerals Consulting Group, as Managing Director (Asia Pacific) for Mega Graphite (Australia), including on the Uley Graphite Mine, as Chief Executive Officer of Australian Graphite Limited and as General Counsel (Global) for MEGA Graphite Inc. He is the author of published articles and papers on project delivery and he frequently presents at conferences on mining, project delivery, finance and management.

Other current directorships of listed companies
Nil.

Other directorships held in listed companies in the last three years
Nil.

Interest in shares
802,084 Ordinary Shares held by entities in which Mr Darby has a beneficial interest. 687,500 Shares are subject to escrow until 6 January 2016.

Interest in options / performance rights
57,292 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Darby has a beneficial interest.

500,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Darby has a beneficial interest and escrowed to 6 January 2016.

4,000,000 Unlisted Options exercisable at $1.10 expiring on 31 July 2017, held by an entity in which Mr Darby has a beneficial interest, with vesting subject to meeting various KPI conditions.

GLENISTER LAMONT
BEng Mining (Hons), MBA (IMD Switzerland) FAICD, FFin MAusIMM

Non-Executive Director
(appointed 17 December 2008)

Experience and expertise
Mr Lamont is a professional non-executive Director. Recent roles include Managing Director and consultant for a range of resource companies. Previously, as a General Manager with Ashton Mining, he led strategy and commercial implementation of business development initiatives and managed all aspects of investor and corporate affairs. Prior to that, as an Executive Director at the leading European investment bank UBS Warburg, he conducted financial, technical and strategic evaluation of mining companies and participated in a wide range of corporate transactions. He has international mining experience in base metals, gold, coal and other commodities that has included experience as a mining engineer with Preussag in Germany as well as a rock mechanics engineer and mining engineer in South Africa for Goldfields of South Africa.

Special responsibilities
Chairman of audit committee.

Other current directorships of listed companies
Chairman of Strategic Energy Resources Limited (ASX:SER, from 11 December 2008) and non-executive Director of Golden Rim Resources (ASX:GMR from 17 July 2007)

Other directorships held in listed companies in the last three years
Nil.

Interest in shares
104,167 Ordinary Shares held by an entity in which Mr Lamont has a beneficial interest. 25,000 Shares are subject to escrow until 6 January 2016.

Interest in options
57,441 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Lamont has a beneficial interest.

500,000 Unlisted Options exercisable at $1.10 and expiry of 31 July 2017, held by an entity in which Mr Lamont has a beneficial interest.

IAN SCHACHE

B.Sc (Met), B.Econ Old

Independent Non-Executive Director
(appointed 26 September 2013)

Experience and expertise

Mr Schache has over 40 years' experience across a diverse range of development, operations and production activities in the mining industry. Ian is a Director of New South Resources Limited and was previously Executive General Manager for Bemax Resources Ltd, Senior Vice President and Chief Operating Officer for Tiomin Resources Inc. and Executive General Manager Operations for Westralian Sands/Iluka Resources Ltd. Prior experience includes 16 years in engineering and management with Mount Isa Mines Ltd.

Special responsibilities

Member of audit committee.

Other current directorships of listed companies

Nil.

Other directorships held in listed companies in the last three years

Nil.

Interest in shares

250,001 Ordinary Shares held by an entity in which Mr Schache has a beneficial interest.

Interest in options

17,858 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Schache has a beneficial interest.

500,000 Unlisted Options exercisable at $1.10 expiring on 31 July 2017, held by an entity in which Mr Schache has a beneficial interest.

IAN PATTISON

Independent Non-Executive Director
(appointed 10 December 2014)

Experience and expertise

Mr Pattison is currently director of Luminus Systems Limited and a director of Chimaera Capital Limited (CCL), an Australian based financial services company, and is a solicitor and Chartered Accountant with significant experience in capital markets having worked with Donaldson Lufkin Jenrette Inc. and Greenwich based Paloma Partners LLC.

Other current directorships of listed companies

Nil.

Other directorships held in listed companies in the last three years

Nil.

Interest in shares

5,355,000 Ordinary Shares held by entities in which Mr Pattison has a beneficial interest.

Interest in options

5,262,500 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by entities in which Mr Pattison has a beneficial interest.

1,875,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by entities in which Mr Pattison has a beneficial interest.

COMPANY SECRETARY

JAROSLAW (JAREK) KOPIAS

BCom, CPA, AGIA, ACIS

Company Secretary / Chief Financial Officer

Mr Kopias is a qualified Certified Practising Accountant who has worked extensively in the resource sector in various corporate and mine site roles. He holds a Bachelor of Commerce Degree, is a Chartered Secretary and a member of the Institute of Certified Practising Accountants in Australia.

PRINCIPAL ACTIVITIES

The Company's principal activities are the exploration, mining, processing and manufacture of graphite and associated products.

OPERATING AND FINANCIAL REVIEW

OPERATING & FINANCIAL REVIEW

Health, safety & environment

Valence Industries believes that responsible health, safety and environmental management and performance is integral to an efficient and successful company.

Valence Industries received approval for its Program for Environment Protection and Rehabilitation (PEPR) on 23 December 2014 allowing commissioning to commence. In June 2015 the Company received regulatory approval for a modified process water pond system at its Uley Graphite™ facilities to be operated in accordance with the existing PEPR. The modified system allows the Uley Graphite™ operations to achieve greater efficiency by increased clarification, recycling and reuse of water in the processing operations, in line with regulatory preferences.

The Company also achieved an excellent safety record with no lost time injury at its Uley Graphite™ operations since listing on ASX in January 2014.

Our people

During the year Valence Industries ramped-up its recruitment of personnel required for our operations. This incurred significant cost ahead of grant of approvals and commencement of plant commissioning. The Company has a team of site operations personnel who live on the Eyre Peninsula within commuting distance from the Uley plant.

Valence Industries' commitment to Port Lincoln and the Eyre Peninsula has also extended to engagement with a significant number of local and regional contractors.

Opening of Uley Graphite™ Mine and commissioning of Phase I Plant

The Uley Graphite™ site was formally re-opened on 25 November 2014 and has received strong community and government support. Commissioning and initial production using pre-processed fines stockpiles commenced on 25 December 2014 after the Company received regulatory approvals from the South Australian government. New laboratory facilities were also commissioned to allow the Company to meet operational and customer requirements for quality certification.

High grade ore reserve delivered

During the year the Company delivered its maiden graphite Ore Reserve at the Uley Graphite™ site and following additional drilling upgraded the Ore Reserve to 2,917,000 tonnes at an average grade of 12.1% gC (graphitic carbon), for 353,618 contained tonnes of graphite.

Assays from the extensional drilling campaign have also confirmed the high-grade graphite mineralisation extends along strike, close to surface, to the north and south of Uley Pit 2.

In August 2014 the Company also announced the Mineral Resource which has been the source of feed for commissioning and early production.

Feasibility study for expanded operations delivered

In early January 2015 Valence Industries released its Feasibility Study for expansion of existing operations and for further advanced product handling and manufacturing treatment of its flake graphite products. The Feasibility Study defined an advanced manufacturing program with two key aspects: the expansion of flake graphite concentrate production at the Uley Graphite™ site, and an advanced product manufacturing and high purity and micronisation facility to be established in the Adelaide area (Phase III).

The Company subsequently announced improved project economics as a result of the upgrading of Ore Reserves. The NPV of $90m and IRR of 47% announced in June 2015 does not at this stage attribute any value to the Company's strategy to increase production of higher value, advanced manufactured graphite product from 5% of output, as assumed in the January 2015 Feasibility Study, to 40% of total output.

Our customers

Valence Industries continues to expand and receive increased customer requests for flake graphite products and commitments across a range of industries and geographical regions in line with the ramp up of production and operations at the Uley Graphite™ mine. Customer requests come from applications including fire retardants, lubricants, geothermal, foils, and energy exploration as well as alkaline, lead acid, and lithium ion batteries for consumer goods.

Valence Industries has also seen an increase in sample requests for precursor coarse flake graphite for graphene research. These inquirers have come from universities, medical research companies, and commercial R&D for electronics, paints, and aerospace.

Product qualification is important in the graphite market as an essential precursor to diversification of products to various industries migrating to new sales and supply agreements. The process of qualification involves shipment of samples to customers engaged in a range of industries from refractories to automotive products to aerospace. As production rates are progressively increased, the qualification program is structured to lead to new sales and supply agreements in addition to conversion of MOUs that contemplate more than 40,000 tonnes of graphite sales over 3 years.

Significant accomplishments this year include the signing of a new Asia Pacific customer to a sales contract in excess of US$50 million over three years as well as receiving new trial orders from several refractory customers in Europe, India, and Japan. When final qualifications are complete from these new trial orders, this will lead to approximately 7,500 tonnes per annum of new business for Valence Industries. Other accomplishments include the signing of sales agents in the UK for thermal management applications, energy exploration, and applications using expandable graphite; in India for refractories and crucibles.

Valence Industries has a market development strategy including market brands designed for each of the six market groups identified in the marketing strategy as well as active engagement with European, Asia Pacific, North American and South American customers across multiple industries and applications. This global reach and industry diversity is designed to achieve optimum prices for the high quality flake graphite produced by Valence Industries and to manage the Company's growth in key markets where added value graphite products increases the company's revenue and profitability.

FINANCE AND CORPORATE

The net loss for the Group for the year was $10,308,483 (2014: $2,961,929) after providing for income tax – an increase of $6,871,554 to the corresponding period.

The key contributor to the increased loss for the year was an overall increase in activities and commencement of works in readiness for production. Recruitment and pre-commissioning incurred expenses of over $4.0m. During the prior period to the Company had limited operations as preparations were made for the Initial Public Offering (IPO) on 6 January 2014 and for the refurbishment of the existing processing plant at Uley Operations™.

Valence Industries had $1.6 million cash on hand as at 30 June 2015, a reduction of $5.3 million from 30 June 2014.

As part of the Company's obligations under the Uley Graphite™ PEPR approved on 23 December 2014, a rehabilitation bond of $1.709m was lodged. A term deposit held as security against that bond has been classified as restricted cash in the Consolidated Statement of Financial Position and therefore as a cash outflow.

Payment for plant and laboratory programs as part of the pre-commissioning, construction testing and installation of equipment, particularly in conjunction with the primary processing circuit, amounted to $7.0 million. A further $3.3 million was paid for drilling campaigns aimed at establishing and upgrades the Company's reserves and resources, for obtaining government approvals and for design of the water pond facilities.

Completion of placements, SPP and rights issue

In September 2014 Valence Industries issued 17,142,844 shares to institutional and sophisticated investors for a placement to raise $12.0 million (before costs) at an issue price of $0.70 per share.

A Share Purchase Plan (SPP) was also offered to all eligible shareholders in Australia and New Zealand at a price of $0.70 per share. The SPP closed on 31 October 2014 raising a further $0.69 million.

In May 2015 the Company issued 7,117,665 shares to institutional and sophisticated investors for a placement to raise $2.1 million (before costs) at an issue price of $0.29 per share and free attaching options on a 1 for 2 basis in the same class as the ASX listed VXLO options (exercisable at $0.25 on or before 31 July 2016).

A one for six renounceable rights issue under the same terms was announced in conjunction with the May 2015 placement. The offer closed on 25 June 2015, raising $0.88 million before costs.

Finance facilities

In May 2015 Valence Industries signed a binding Heads of Agreement with Singapore-based Chimaera Capital Markets Pte Ltd (CCM) as lead financier to provide debt funding up to US$75 million through a syndicated debt finance facility. The funds will be used for Valence Industries' achieve stable production at Uley Graphite™ facilities and potential expansion as outlined in feasibility study.

The finance facilities are comprised in two parts:

- Initial Debt Facility of up to US$20m with an initial bridge facility of A$3m drawn after the end of the year.
- The ability to call on a Main Debt Facility of up to US$75m for further expanded operations and which will repay the Initial Debt Facility.

Both facilities are subject to conditions precedent, which need to be satisfied or waived by the financiers.

At the end of June 2015, Valence Industries announced that pursuant to the syndicated debt facilities agreed with CCM, it would draw down an amount of A$3m in bridge financing, with a further A$0.5m available. Terms of the bridge financing include an establishment fee of approximately $200,000 with an interest rate of 12.5% per annum.

Funds from the bridge financing will provide interim funding while remaining conditions precedent for the Initial Facility are satisfied.

Strategy and outlook

In the next year the focus for Valence Industries will be:

- Implementing corporate and operational lean structures to deliver productivity and cost efficiencies;
- Consistent graphite production from the existing production plant including any optimisation of the process;
- Increasing graphite exports to meet customer contracts in Europe, the Asia Pacific and North America;
- New mining from Uley Pit 2 to provide fresh feed material for the existing production plant;
- Detailed engineering and design for plant expansion and new purifying and micronising facilities for construction;
- Development of further strategic graphite markets and customers to match productive outputs;
- Implementing strategic corporate finance facilities to underpin operations and growth program;
- Development of strategic research programs including for production of graphene.

Development during the 2015/2016 financial year will also be supported by the strategic corporate finance program designed to underpin current operations and expansion and which include the syndicated finance facilities initiated during the past year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company that occurred during the reporting period that has not otherwise been disclosed in this report or the financial statements.

DIVIDENDS

There were no dividends paid or declared during the reporting period or to the date of this report.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the financial year, the Company issued 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 on 2 July 2015 under a renounceable rights issue announced in May 2015.

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 A$3 million in bridge financing with up to a further A$0.5m available under that bridge. The financing has 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 million Initial Facility is satisfied.

On 21 July 2015 the Company announced an additional multi-year, multi-product Sales Contract signed with a major customer for flake graphite sales in excess of US$50m over three years. Graphite supplied under the new contract will 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 exceeds Valence Industries' previously announced weighted average price of US$1,335 per tonne and includes take or pay provisions on the volumes ordered.

On 17 August 2015 the Company announced the appointment of experienced executive and engineer Robert Mencel as Chief Operating Officer to work closely alongside CEO & MD Christopher Darby to deliver operational excellence for Valence Industries.

On 4 September 2015 the Company issued 2,062,500 shares to Rio Tinto Exploration Pty Ltd with respect to concluding legacy royalties. Under the agreement Rio Tinto Exploration Pty Ltd will become a shareholder in the Company with 2,062,500 shares and receive a cash payment of $100,000 concluding all legacy royalties. As part of the agreement, the Company will 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 Graphite™ operations. Concentrate grades of up to 94% have been achieved with high proportions of large flake sizes however production testing has identified process bottlenecks which when removed will 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 will commence upon finalisation of finance facilities. Cost reduction measures have also been implemented including a reduction in Adelaide and Uley workforces.

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.

LIKELY DEVELOPMENTS

The likely developments for the Company include the completion of the Phase I plant commissioning and commencement of full scale production and exports from the Company's Uley Graphite™ facilities.

The Company is expected to expand the current Uley Graphite™ manufacturing facilities, significantly increasing annual graphite production capacity.

Underpinning these production programs the Company will continue to develop its global customer base as well as new strategic graphite markets and relationships. In addition Valence Industries continues its research and development program for production of graphene.

Development during the 2015/16 financial year will also be supported by the strategic corporate finance program designed to underpin current operations and expansion and which include the syndicated finance facilities initiated during the past year.

DIRECTORS' MEETINGS

The number of Directors' meetings held during the reporting period and the number of meetings attended by each Director is as follows:

	Board meetings		Audit committee meetings	
Directors	Attended	Entitled to attend	Attended	Entitled to attend
GG Spurling	13	13	1	2
CS Darby	13	13	-	-
G Lamont	13	13	2	2
IS Schache	13	13	2	2
ID Pattison[1]	7	7	1	1

1 *Mr Pattison was appointed 10 December 2014*

At this time there are no separate Board committees, other than the audit committee as disclosed above, as all matters usually delegated to such committees are handled by the Board as a whole.

UNISSUED SHARES UNDER OPTION

Unissued ordinary Shares of Valence under option at the date of this report are:

Date options granted	Expiry date	Exercise price of shares	Number under option
24 December 2013	31 July 2016	$0.25	3,500,000
19 February 2015	31 July 2017	$1.10	5,500,000
Total unlisted options			**9,000,000**
24 December 2013 and 4 February 2014	31 July 2016	$0.25	52,077,388
24 December 2013	31 July 2016	$0.25	16,250,000[1]
12 and 13 May 2015	31 July 2016	$0.25	3,558,837
2 July 2015	31 July 2016	$0.25	1,516,193
Total listed options			**73,402,418**

1 *Listed options, but not quoted due to ASX imposed escrow to 6 January 2016.*

The Company issued 5,500,000 unlisted options to Director's of the Company on 19 February 2015. 4,000,000 of these unlisted options are unvested and are subject to various performance hurdles.

Valence issued 3,558,837 listed options on 12 and 13 May 2015 free attaching to ordinary shares issued under a placement to sophisticated investors on a 1 for 2 basis. A further 1,516,193 listed options were issued on the same basis to participants in the Company's non-renounceable rights issue on 2 July 2015.

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

During the reporting period 513,231 ordinary shares were issued as a result of the exercise of listed options with a further 167 ordinary shares issued since the reporting date.

REMUNERATION REPORT (AUDITED)

The Directors of Valence Industries Limited present the Remuneration Report in accordance with the *Corporations Act 2001* and the Corporations Regulations 2001.

The Remuneration Report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based remuneration

A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The Company's remuneration policy has been designed to align objectives of key management personnel with objectives of shareholders and the business, by providing a fixed remuneration component and offering specific long-term incentives through the issue of options and / or performance rights. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and Directors to run and manage the Company. The key management personnel of the Company are the Board of Directors and Executive Officers.

The Board's policy for determining the nature and amount of remuneration for its members and key management personnel of the Company is as follows:

- The remuneration policy, setting the terms and conditions for the executive Directors and key management personnel, was developed by the Board. All key management personnel are remunerated on a consultancy or salary basis based on services provided by each person. The Board annually reviews the packages of key management personnel by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The Board may exercise discretion in relation to approving incentives, bonuses, options and performance rights. The policy is designed to attract the highest calibre of key management personnel and reward them for performance that results in long-term growth in shareholder wealth.
- Key management personnel are also entitled to participate in the Company's Performance Rights and Option Plan as approved by shareholders at the 2013 AGM on 19 November 2013.
- The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting (currently $500,000). Fees for non-executive Directors are not linked to the performance of the Company, except in relation to KPI options. Additionally, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the Performance Rights and Option Plan.

During the reporting year, performance reviews of senior executives were not conducted.

PERFORMANCE BASED REMUNERATION

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and other key management personnel. Currently, this is facilitated through the issue of options and/or performance rights to key management personnel to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

In considering the consolidated entity's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and the previous financial year:

	2015 $	2014 $
Loss attributable to owners of the company	(10,308,483)	(2,961,929)
Dividends paid	-	-
Change in share price	(0.20)	0.21

The previous three years are not considered as the Company was newly listed in January 2014.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2014 ANNUAL GENERAL MEETING

Valence Industries received more than 98% "yes" votes, including those at the discretion of the Chairman, for the resolution to adopt the 2014 Remuneration Report at the Company's AGM on 18 November 2014. There were no questions or issues raised by shareholders regarding remuneration at that meeting.

The Company did not engage remuneration consultants during the reporting period.

B DETAILS OF REMUNERATION

Details of the nature and amount of each element of the remuneration of the Company's key management personnel (KMP) are shown below:

DIRECTOR AND OTHER KEY MANAGEMENT PERSONNEL REMUNERATION

2015	Short term benefits	Post-employment benefits	Share-based payments		
	Salary and fees $	Superannuation $	Options and performance rights[1] $	Total $	% of remuneration that is equity based
Non-Executive Directors					
G Spurling	68,493	6,507	17,793	92,793	19%
G Lamont	45,662	4,338	17,793	67,793	26%
I Schache	18,100	31,900	17,793	67,793	26%
I Pattison	25,531	2,426	-	27,957	0%
Executive Directors					
C Darby	333,071	-	96,084	429,155	22%
Other key management personnel					
J Kopias[2]	260,138	-	-	260,138	0%
C Whiteley	269,751	-	-	269,751	0%
Total	**1,020,746**	**45,171**	**149,463**	**1,215,380**	**12%**

2014	Short term benefits	Post-employment benefits	Share-based payments		
	Salary and fees $	Superannuation $	Options and performance rights[1] $	Total $	% of remuneration that is equity based
Non-Executive Directors					
G Spurling	24,375	35,000	14,359	73,734	19%
G Lamont	47,482	4,613	14,359	66,454	22%
I Schache	14,136	24,059	14,359	52,554	27%
A Armitage	8,194	-	34,598	42,792	81%
A Rechner	8,194	-	34,598	42,792	81%
Executive Directors					
C Darby	231,500	-	510,836	742,336	69%
M Muzzin	8,194	-	34,598	42,792	81%
Other key management personnel					
J Kopias[2]	173,713	-	-	173,713	0%
K Lloyd[3]	157,526	-	-	157,526	0%
M Leydin4	3,000	-	-	3,000	0%
Total	**676,314**	**63,672**	**657,707**	**1,397,693**	**47%**

1 *Performance rights and options issued to Directors in 2015 as approved at the 19 February General Meeting and issued to Directors in 2014 as approved at the 2013 AGM.*

2 *Fees paid to Kopias Consulting for CFO, Company secretarial and accounting services – an entity associated with Mr Kopias.*

3 *Fees paid to Jorvik Resources Pty Ltd – an entity associated with Ms Lloyd.*

4 *Fees paid to Leydin Freyer – an entity associated with Ms Leydin.*

5 *Remuneration disclosed in relation to Messrs Lamont, Armitage, Rechner and Muzzin, being Directors of the Company prior to appointment of the current Board, represent the amount accrued for Director's fees. These fees were paid during 2013/14.*

Mr Pattison was appointed to the Board on 10 December 2014. Mr Whiteley commenced as Chief Marketing Officer and as a KMP in July 2014.

Other than Mr Pattison all Directors have been issued with performance based options. The KPI's associated with the options and rights are detailed in section D below.

TRANSACTIONS WITH KMP

Transactions with key management personnel are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Christopher Darby

Whitington Darby, a business of which Mr Darby holds a beneficial interest, was paid Managing Director & CEO and consulting fees during the period totalling $333,071 (2014: $231,500). The total amount of fees due to Whitington Darby as at 30 June 2015 was $Nil (2014: $Nil).

Valence Industries engaged Watsons Lawyers during the year, a firm in which Mr Darby is a partner, on commercial terms for the provision of legal advice and a corporate office. Valence Industries has incurred $269,880 of legal fees and $65,952 of office costs during the financial year (2014: $133,528). The total amount of fees due to Watsons Lawyers as at 30 June 2015 was $52,154 (2014: $1,700).

Ian Schache

Valence Industries engaged Coronet Consultants, a business in which Mr Schache is a Director, on commercial term for the provision of technical services. Valence Industries has incurred $16,727 (2014: $9,000) of fees during the financial year. The total amount of fees due to Coronet Consultants as at 30 June 2015 was $Nil (2014: $1,600).

Glenister Lamont

Valence Industries engaged Logmaor Services, a business in which Mr Lamont is a Director, on commercial term for the provision of technical services. Valence Industries has incurred $7,500 (2014: $Nil) of fees during the financial year. The total amount of fees due to Logmaor Services as at 30 June 2015 was $Nil (2014: $Nil).

Jarek Kopias

Kopias Consulting, a business of which Jarek Kopias is a Director was paid consulting fees during the year totalling $342,917 (2014: 173,713). Services provided by this entity relate to CFO, Company secretarial and accounting services provided by Mr Kopias and staff of the business. The total amount of fees due to Kopias Consulting as at 30 June 2015 was $29,563 (2014: $22,300).

C SERVICE AGREEMENTS

Remuneration and other terms of employment for the Executive Directors and other KMP are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below:

Name	Base remuneration	Unit of measure	Term of agreement	Notice period	Termination benefits
C Darby MD & CEO	$371,000	per annum contract	Indefinite	Twelve months	Twelve months
J Kopias CFO & Co Sec	Variable	hourly rate contract	Indefinite	One month	None
C Whiteley CMO	US$220,000	per annum contract	Indefinite	Variable depending on length of service	Variable depending on length of service

D SHARE-BASED REMUNERATION

UNLISTED OPTIONS

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

Details of options over ordinary shares in the Company that were granted as remuneration to each KMP during 2014/15 are set out below:

Granted			Terms and conditions of each grant				
2015	Number granted	Grant date	Fair value at grant date		Exercise price	First exercise date[1]	Last exercise date
			per option	full value	$		
C Darby	1,000,000	19/02/2015	$0.036	35,587	$1.10	1 Share price	31/07/2017
C Darby	1,000,000	19/02/2015	$0.036	35,587	$1.10	2 Phase II plant construction program	31/07/2017
C Darby	2,000,000	19/02/2015	$0.036	71,173	$1.10	3 Production and sales	31/07/2017
Subtotal	**4,000,000**	**KPI based options**					
G Spurling	500,000	19/02/2015	$0.036	17,793	$1.10	n/a	31/07/2017
G Lamont	500,000	19/02/2015	$0.036	17,793	$1.10	n/a	31/07/2017
I Schache	500,000	19/02/2015	$0.036	17,793	$1.10	n/a	31/07/2017
Subtotal	**1,500,000**	**Vested options – no KPI based conditions**					
TOTAL	**5,500,000**						

1 *Meeting criteria of the KPI type listed determines vesting of unlisted options.*

KPI related unlisted options were granted to the Managing Director during the year and approved at the 19 February 2015 General Meeting. The KPI conditions related to these options are listed below:

1 Share price KPI

The vesting of Managing Director Options under this KPI is tied to achieving a Share price as follows:

Valence Industries' Share price target as detailed below.

Share price target over a minimum of 5 days during the measurement period[1]	Incremental entitlement
$0.90	200,000
$1.00	200,000
$1.10	600,000
Total	**1,000,000**

1 *Based on average of closing share price.*

The entitlement is based on the sustained market value (measurement based on closing share price) over a 5 day period between 19 February 2015 and 31 December 2015. Vesting and issue of Managing Director Options will be within 1 month of 31 December 2015.

For example, if the largest 5 day closing average Valence share price between 19 February 2015 and 31 December 2015 was $1.05 per Share in the 5 day period between 10 August 2015 and 14 August 2015, then Mr Darby will be entitled to 400,000 Managing Director Options.

2 Phase II plant construction program

The vesting of Managing Director Options under this KPI is tied to construction of Phase II in accordance with the production program approved by the Board for the period to 31 December 2015.

For example, if the plan requires planned construction outcomes by 31 December 2015 and this is achieved then Mr Darby will be entitled to 1,000,000 options.

3 Production and sales

The vesting of Managing Director Options under this KPI is tied to achieving budgeted production and sales in accordance with and within the corresponding budgets set by the board for the 2015/16 financial year.

- Mr Darby will be issued with 500,000 Managing Director Options upon Valence Industries achieving 80% of the budgeted production and sales for the financial year ended 30 June 2016.
- Mr Darby will be issued with a further 1,500,000 Managing Director Options upon Valence Industries achieving 100% or more of the budgeted production and sales for the financial year ended 30 June 2016.

For example, if the production sales achieved for the financial year ended 30 June 2016 is 90% of the budget set by the Board for that financial year, then Mr Darby will be entitled to 500,000 options.

As at the date of this report none of the KPIs have been met and none of the KPI based unlisted options have vested.

PERFORMANCE RIGHTS

There were no performance rights over ordinary shares in the Company granted as compensation during the reporting period.

SHARE HOLDINGS OF KEY MANAGEMENT PERSONNEL

The number of ordinary shares of Valence Industries Limited held, directly, indirectly or beneficially, by each KMP, including their personally-related entities as at the reporting date:

2015					
KMP	Held at 30 June 2014	Acquired during year[2]	Disposed during year	Options / rights exercised	Held at 30 June 2015
G Spurling	150,000	21,429	-	-	171,429
C Darby	687,500	-	-	-	687,500
G Lamont	75,000	14,286	-	-	89,286
I Schache	200,000	14,286	-	-	214,286
I Pattison1	4,590,000	-	-	-	4,590,000
J Kopias	62,500	-	-	-	62,500
Total	**5,765,000**	**50,001**	**-**	**-**	**5,815,001**

1 Opening Balance represents shares held by Mr Ian Pattison upon joining the Board on 10 December 2014.

2 All shares acquired during the year were issued upon director participation in the Company's Share Purchase Plan.

OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL

The number of options over ordinary shares in Valence Industries Limited held, directly, indirectly or beneficially, by each KMP, including their personally-related entities as at the reporting date, is as follows:

Unlisted options

2015 Directors	Held at 30 June 2014	Issued during year	Lapsed during year	Exercised	Held at 30 June 2015	Vested and exercisable at 30 June 2015
G Spurling[1&2]	350,000	500,000	(350,000)	-	500,000	500,000
C Darby[1&2]	1,500,000	4,000,000	(1,000,000)	-	4,500,000	500,000
G Lamont[1&2]	350,000	500,000	(350,000)	-	500,000	500,000
I Schache[1&2]	350,000	500,000	(350,000)	-	500,000	500,000
I Pattison[3]	1,875,000	-	-	-	1,875,000	1,875,000
Total	**4,425,000**	**5,500,000**	**(2,050,000)**	**-**	**7,875,000**	**3,875,000**

1 *Options issued as approved at the 19 February 2015 General Meeting.*

2 *Options lapse where the corresponding KPI condition was not met.*

3 *Opening Balance represents unlisted options held by Mr Ian Pattison upon joining the Board on 10 December 2014. Options will be quoted upon lifting of ASX imposed escrow on 6 January 2016.*

Listed options

2015 Directors	Held at 30 June 2014	Issued during year	Lapsed during year	Exercised	Held at 30 June 2015	Vested and exercisable at 30 June 2015
G Spurling	150,000	-	-	-	150,000	150,000
G Lamont	50,000	-	-	-	50,000	50,000
I Pattison[1]	4,880,000	-	-	-	4,880,000	4,880,000
Total	**5,080,000**	**-**	**-**	**-**	**5,080,000**	**5,080,000**

1 *Opening balance represents unlisted options held by Mr Ian Pattison upon joining the Board on 10 December 2014.*

PERFORMANCE RIGHTS HOLDINGS OF KEY MANAGEMENT PERSONNEL

The number of performance rights over ordinary shares in Valence Industries Limited held, directly, indirectly or beneficially, by each KMP, including their personally-related entities as at the reporting date, is as follows:

2015 Directors	Held at 30 June 2014	Issued during year	Lapsed during year[1]	Exercised	Held at 30 June 2015	Vested at 30 June 2015
C Darby	1,375,000	-	(1,375,000)	-	-	-
Total	**1,375,000**	**-**	**(1,375,000)**	**-**	**-**	**-**

1 *Lapse of performance rights where the corresponding KPI condition was not met.*

END OF AUDITED REMUNERATION REPORT

ENVIRONMENTAL LEGISLATION

The Directors believe that the Company has, in all material respects, complied with all particular and significant environmental regulations relevant to its operations.

The Company's operations are subject to various environmental regulations under the Commonwealth and State Laws of Australia. Approvals, licences, hearings and other regulatory requirements are performed, as required, by the Company's management for each permit or lease in which the Company has an interest.

INDEMNITIES GIVEN AND INSURANCE PREMIUMS PAID TO AUDITORS AND OFFICERS

During the year, the Company paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all officers.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of the insurance policies is not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the reporting period, except to the extent permitted by law, indemnified or agreed to indemnity any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

NON-AUDIT SERVICES

During the year Grant Thornton performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the reporting period by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company and its related practices for audit and non-audit services provided during the reporting period are set out in note 20 to the Financial Statements.

A copy of the Auditor's Independence Declaration as required under s307C of the *Corporations Act 2001* is included on page 17 of this Financial Report and forms part of this Directors' Report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

CORPORATE GOVERNANCE

The Board has adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 3rd Edition" (ASX Recommendations). The Board continually monitors and reviews its existing and required policies, charters and procedures with a view to ensuring its compliance with the ASX Recommendations to the extent deemed appropriate for the size of the Company and its development status.

A summary of the Company's ongoing corporate governance practices is set out annually in the Company's Corporate Governance Statement and can be found on the Company's website at *www.valenceindustries.com/responsibilities.php.*

Signed in accordance with a resolution of the Directors.

Christopher Darby
Managing Director & CEO

28 September 2015

AUDITOR'S INDEPENDENCE DECLARATION

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67 Greenhill Rd
Wayville SA 5034

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF VALENCE INDUSTRIES LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Valence Industries Limited for the year ended 30 June 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 audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2015

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

	Notes	2015 $	2014 $
Sales revenue		3,759	30,815
Other income		5,510	43,623
Corporate expenses	2	(4,732,705)	(1,861,418)
Commercialisation expenses	2	(1,297,789)	(170,237)
Pre-commissioning expenses	2	(4,051,798)	(245,973)
Total operating loss		**(10,073,023)**	**(2,203,190)**
Interest revenue		231,006	103,053
Interest expense		(4,176)	(11,986)
Foreign exchange loss		(18,886)	(111)
Debt raising costs		(69,500)	-
IPO expenses not capitalised		-	(427,505)
Net financing income \ (expense)		**138,444**	**(336,549)**
Loss before tax		(9,934,579)	(2,539,739)
Income tax expense	3	(373,904)	(422,190)
Loss for the year attributable to owners of the parent entity		(10,308,483)	(2,961,929)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of the parent entity		**(10,308,483)**	**(2,961,929)**
Loss per share from continuing operations			
Basic and diluted loss – cents per share	4	(5.63)	(2.14)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	2015 $	2014 $
ASSETS			
Current assets			
Cash and cash equivalents	5	1,588,807	6,853,383
Trade and other receivables	6	234,488	233,101
Inventory		6,280	-
Other assets		547,855	58,861
Total current assets		**2,377,430**	**7,145,345**
Non-current assets			
Term deposits (restricted cash)	7	1,708,776	-
Property, plant and equipment	8	8,554,085	1,833,134
Intangible assets		214,578	41,848
Development expenditure	9	5,351,664	-
Exploration and evaluation expenditure	10	1,318,979	356,763
Total non-current assets		**17,148,082**	**2,231,745**
TOTAL ASSETS		**19,525,512**	**9,377,090**
LIABILITIES			
Current liabilities			
Trade and other payables	11	5,509,371	672,887
Employee provisions	12	150,813	1,878
Borrowings	13	194,728	20,606
Share subscriptions received	14	879,358	-
Total current liabilities		**6,734,270**	**695,371**
Non-current liabilities			
Borrowings	13	20,606	41,212
Provisions	15	558,369	-
Total non-current liabilities		**578,975**	**41,212**
TOTAL LIABILITIES		**7,313,245**	**736,583**
NET ASSETS		**12,212,267**	**8,640,507**
EQUITY			
Issued capital	16	27,906,146	13,898,624
Reserves	17	831,049	1,096,180
Accumulated losses		(16,524,928)	(6,354,297)
TOTAL EQUITY		**12,212,267**	**8,640,507**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

2015	Share capital $	Option / rights reserve $	Accumulated losses $	Total equity $
Balance at beginning of year	**13,898,624**	**1,096,180**	**(6,354,297)**	**8,640,507**
Issue of shares upon exercise of options	128,308	-	-	128,308
Share Placements	14,064,114	-	-	14,064,114
Share Purchase Plan	687,531	-	-	687,531
Issue costs (net of tax)	(872,431)	-	-	(872,431)
Issue of equity as remuneration to KMP	-	149,463	-	149,463
Lapse of unlisted options and performance rights	-	(414,594)	137,852	(276,742)
Transactions with owners	27,906,146	831,049	(6,216,445)	22,520,750
Comprehensive income:				
Total loss for the year	-	-	(10,308,483)	(10,308,483)
Total other comprehensive income for the year	-	-	-	-
Balance 30 June 2015	**27,906,146**	**831,049**	**(16,524,928)**	**12,212,267**

2014	Share capital $	Option / rights reserve $	Accumulated losses $	Total equity $
Balance at beginning of year	**3,228,050**	**-**	**(3,392,368)**	**(164,318)**
Issue of seed and rights issue	11,139,626	-	-	11,139,626
Issue of shares upon exercise of options	308,086	-	-	308,086
Issue of equity as remuneration to KMP	207,973	533,957	-	741,930
Issue of underwriter options	-	562,223	-	562,223
Issue costs (net of tax)	(985,111)	-	-	(985,111)
Transactions with owners	10,670,574	1,096,180	-	11,766,754
Comprehensive income:				
Total profit or loss for the year	-	-	(2,961,929)	(2,961,929)
Total other comprehensive income for the year	-	-	-	-
Balance 30 June 2014	**13,898,624**	**1,096,180**	**(6,354,297)**	**8,640,507**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Notes	2015 $	2014 $
OPERATING ACTIVITIES			
Receipts from customers		3,759	-
Payments to suppliers and employees		(8,027,547)	(1,510,295)
Interest received		262,549	71,510
Interest payment		(4,176)	(11,986)
Net cash used in operating activities	**18**	**(7,765,415)**	**(1,450,771)**
INVESTING ACTIVITIES			
Payments for plant and equipment		(7,049,192)	(1,456,836)
Payments for exploration expenditure		(858,923)	(136,788)
Payments for development expenditure		(2,480,418)	-
Investment in restricted term deposits		(1,708,776)	-
Net cash used in investing activities		**(12,097,309)**	**(1,593,624)**
FINANCING ACTIVITIES			
Proceeds from issue of share capital		14,879,952	11,585,212
Subscriptions received		879,358	-
Capital raising costs		(1,140,556)	(1,410,083)
Drawdown of loan		-	69,770
Repayment of loan		(20,606)	(352,150)
Net cash from financing activities		14,598,148	9,892,749
Net change in cash and cash equivalents		**(5,264,576)**	**6,848,354**
Cash and cash equivalents – beginning of year		6,853,383	5,029
Cash and cash equivalents – end of year	**5 (a)**	**1,588,807**	**6,853,383**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Valence Industries Limited is a listed company, registered and domiciled in Australia. Valence Industries Limited is a for profit entity for the purpose of preparing the financial statements.

The consolidated financial statements for the reporting period ended 30 June 2015 were approved and authorised by the Board of Directors on 28 September 2015.

The Financial Report has been prepared on an accruals basis, and is based on historical costs, modified by the measurement at fair value of selected on-current assets, financial assets and financial liabilities.

The significant policies which have been adopted in the preparation of this financial report are summarised below.

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Valence Industries Limited as at 30 June 2015 and the results of all subsidiaries for the year then ended.

Subsidiaries

The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2015. Subsidiaries are all entities (including structured entities) over which the Group has:

i) the power to direct the relevant activities;

ii) exposure to significant variable returns; and

ii) the ability to utilise power to affect the Group's own returns.

Subsidiaries are fully consolidated from the date on which control is fully transferred to the Group. They are deconsolidated from the date that control ceases. All subsidiaries have a reporting date of 30 June.

A list of controlled entities is contained in note 19 to the Financial Statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted, where necessary, to ensure consistency with the accounting policies adopted by the Group.

b) Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

c) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria, as prescribed by AASB 8, are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the Board in allocating resources have concluded that at this time there are no separately identifiable segments.

d) Revenue

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The Group often enters into sales transactions involving a range of the Group's products. The Group applies the revenue recognition criteria set out below.

Sale of products

Sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of goods with no significant service obligation is recognised on delivery.

All income is stated net of goods and services tax (GST).

Interest and dividend income

Interest income and expenses are reported on an accrual basis using the effective interest method. Dividends, other than those from investments in associates, are recognised at the time the right to receive payment is established.

e) Finance income and expense

Finance income comprises interest income on funds invested, gains on disposal of financial assets and changes in fair value of financial assets held at fair value through profit or loss.

Interest income is recognised as it accrues in the profit or loss, using the effective interest rate method.

f) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the items. Repairs and maintenance are charged to the profit or loss during the reporting period in which they were incurred.

Plant and equipment under construction is accumulated until it is installed and ready for use at which time the costs are transferred to plant and equipment and depreciated.

Depreciation is calculated using the diminishing value method to allocate asset costs over their estimated useful lives, as follows:

Plant and equipment	3–20 years

The assets residual values and useful lives are reviewed and adjusted at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other revenues in respect of those assets to retained earnings.

g) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that right of tenure is current and those costs are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

Accumulated costs, in relation to an abandoned area, are written off in full against profit in the period in which the decision to abandon the area is made.

h) Development expenditure

Development expenditure represents the accumulation of all acquired exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest being prepared for mining or in which economic processing of a mineral reserve has commenced. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves. The net carrying value is reviewed regularly and, to the extent to which this value exceeds its recoverable amount, that excess is fully provided against in the financial year in which this is determined.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

The Group records the present value of the estimated cost of legal and constructive obligations (such as those under the consolidated entity's Environmental Policy) to restore operating locations in the period in which the obligation is incurred. Site restoration costs include the dismantling and removal of plant and equipment, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs and current legal requirements and technology.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

i) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the provisions to the instrument. For financial assets this is equivalent to date that the Group commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified as 'fair value through profit and loss', in which case the costs are expensed to the profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value or amortised cost using the effective interest method or cost. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value.

The Group does not designate any interest in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments:

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets except for those not expected to mature within 12 months after the end of the reporting period.

ii) Financial liabilities

Non-derivative financial liabilities are subsequently measured at cost.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

j) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not probable to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivables. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

l) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently amortised cost using the effective interest rate method.

Trade and other payables are stated at amortised cost.

m) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries or associates and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

n) Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

p) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

r) Share-based payments

The Group has provided payment to related parties in the form of share-based compensation, whereby related parties render services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black and Scholes methodology depending on the nature of the option terms. The fair value in relation to performance rights is calculated using a Monte Carlo simulation.

The Black and Scholes option pricing model takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The Monte Carlo simulation used in pricing the performance rights takes into account the target share price resulting from meeting the KPI, the term of the right, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The fair value of the options and performance rights granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to become exercisable / vested. At each reporting date, the entity revises its estimates of the number of options and performance rights that are expected to become exercisable / vested.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant parties become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

s) Employee benefits

The Group provides post-employment benefits through various defined contribution plans.

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The Group contributes to several plans and insurances for individual employees that are considered defined contribution plans. Contributions to the plans are recognised as an expense in the period that relevant employee services are received.

Short-term employee benefits, including annual leave entitlement, are current liabilities included in 'employee provisions', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

t) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

u) Parent entity

The financial information of the parent entity, Valence Industries Limited, disclosed in the notes to the financial report has been prepared on the same basis as the consolidated financial statements.

v) 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 15.

ii) Key judgements

Development expenditure

The future recoverability of fixed assets and capitalised development expenditure relating to a cash generating unit (CGU) is dependent on a number of factors, including commodity prices, the level of reserves and resources, foreign currency rates and future technological changes that could impact the costs of mining and processing and future legal changes.

The recoverable amount for a CGU is estimated based on discounted cash flows using the Group's internal commodity price and exchange assumptions, estimated quantities of recoverable minerals and estimated production levels, operating costs and capital requirements.

Significant judgements and assumptions are required in making estimates of recoverable amounts. This is particularly so in the assessment of long life assets. CGU valuations are subject to variability in key assumptions including, but not limited to, long-term commodity prices, currency exchange rates, discount rates, and production and operating costs. An adverse change in one or more of the assumptions could result in a reduction in a CGU's recoverable amount.

Life-of-mine operating cost assumptions reflect the expectation that costs will, over the long term, have a degree of positive correlation to the prevailing commodity price and exchange rate assumptions.

After assessing the recoverable amount of the Uley Graphite™ project against its carrying value, no impairment charges were recognised for the current financial year.

If a variation in the key assumptions used to determine recoverable amount had a negative impact on recoverable amount, it could indicate a requirement for impairment to non-current assets. To the extent that capitalised development, plant and equipment is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

Exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

iii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors with reference to quoted market prices or using the Black-Scholes valuation method or the Monte Carlo valuation method as appropriate taking into account the terms and conditions upon which the equity instruments were granted. The assumptions in relation to the valuation of the equity instruments are detailed in note 17. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

w) Adoption of the new and revised accounting standards

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2014:

- AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-3: AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets; and
- AASB 2014-1: Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles).

Management has reviewed the requirements of the above standards and has concluded that there was no effect on the classification or presentation of balances.

x) Recently issued accounting standards to be applied in future accounting periods

The accounting standards that have not been early adopted for the year ended 30 June 2015, but will be applicable to the Group in future reporting periods are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future reporting periods, however they have been considered insignificant to the Group.

i) AASB 9 Financial Instruments (December 2014)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - the change attributable to changes in credit risk are presented in Other Comprehensive Income ('OCI')
  - the remaining change is presented in profit or loss

  If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

  Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:
  - classification and measurement of financial liabilities; and
  - derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

ii) AASB 15 Revenue from Contracts with Customers

AASB 15:

- replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:
- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

When this Standard is first adopted for the year ending 30 June 2018, there will be no material impact on the transactions and balances recognised in the financial statements.

iii) AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

a) The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

iv) AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

v) AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

When this Standard is first adopted for the year ending 30 June 2016, there will be no impact on the financial statements.

Other standards not yet issued and not expected to impact on the Group:

- AASB 2014-5 Amendments to Australian Accounting Standards arising from the issuance of AASB 15
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

y) Change in presentation

During the year, management have changed the presentation of the profit and loss within the Consolidated Statement of Profit or Loss and Other Comprehensive Income from a Nature of Expenses to the Function of Expenses within the entity. This has been undertaken based on management's assessment that this format provides information that is reliable and more relevant for when the consolidated entity commences production.

As required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial period.

2 EXPENSES

2015	Corporate $	Commercialisation $	Pre-commissioning $	Total $
Employee benefits expense	1,088,367	650,119	1,769,028	3,507,514
Post employment benefits expense	90,689	-	168,058	258,747
Depreciation	213,169	-	-	213,169
Advanced products research	-	250,384	-	250,384
Consulting fees	1,190,068	-	-	1,190,068
Travel	419,630	268,370	-	688,000
Information technology expenses	316,170	-	-	316,170
Compliance	200,961	-	-	200,961
Plant consumables	-	-	325,154	325,154
Minimum lease payments	71,947	-	358,283	430,230
Repairs and maintenance	-	-	305,343	305,343
Royalty settlement	475,000	-	-	475,000
Other	666,704	128,916	1,125,932	1,921,552
Total	**4,732,705**	**1,297,789**	**4,051,798**	**10,082,292**

2014	Corporate $	Commercialisation $	Pre-commissioning $	Total $
Employee benefits expense	1,106,565	116,366	-	1,222,931
Post employment benefits expense	38,125	-	-	38,125
Depreciation	16,269	-	-	16,269
Advanced products research	-	39,515	-	39,515
Consulting fees	188,117	-	-	188,117
Travel	149,213	512	-	149,725
Information technology expenses	38,120	-	-	38,120
Compliance	157,618	-	-	157,618
Minimum lease payments	12,474	-	-	12,474
Plant consumables	-	-	5,189	5,189
Repairs and maintenance	-	-	23,367	23,367
Other	154,917	13,844	217,417	386,178
Total	**1,861,418**	**170,237**	**245,973**	**2,277,628**

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 INCOME TAX EXPENSE

	2015 $	2014 $
a) The components of income tax expense comprise:		
Current income tax expense / (benefit)	(373,904)	(422,190)
b) The prima facie tax loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Net gain / (loss)	(9,934,579)	(2,539,739)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(2,980,374)	(761,922)
Deferred tax assets associated with capital raising costs recognised direct to equity but not meeting the recognition criteria	-	(422,190)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	(349,582)	161,376
Deferred tax asset not realised as recognition criteria not met	3,329,956	1,022,736
Subtotal	-	-
Tax portion of capital raising cost	(373,904)	(422,190)
Income tax (expense) / benefit	(373,904)	(422,190)
c) Deferred tax assets have not been recognised in respect of the following:		
Tax losses	19,575,687	10,002,890
Deferred tax asset has not been recognised	5,872,706	3,000,867

4 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:

	2015 #	2014 #
Weighted average number of shares used in basic earnings per share	183,163,916	138,508,373
Loss per share - basic and diluted (cents)	5.63	2.14

In accordance with AASB 133 ‘Earnings per Share’ there cannot be any dilutive securities as the Company made a loss for the year.

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2015 $	2014 $
Cash at hand and in bank:		
Cash at bank	709,449	308,953
Share subscription monies held by share registry on trust[1]	879,358	-
Short-term deposits	-	6,544,430
Cash and cash equivalents	1,588,807	6,853,383
a) Reconciliation of cash at the end of the year.		
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:		
Cash and cash equivalents	**1,588,807**	**6,853,383**

1 *Subscription monies from the renounceable rights issue which closed on 25 June 2015 totalling $879,358 were held by the Company’s share registry. Funds were transferred to Valence Industries on 2 July 2015 following issue of the associated shares.*

6 TRADE AND OTHER RECEIVABLES

Trade and other receivables include the following:

	2015 $	2014 $
Trade receivables	30,815	30,815
Other receivables	203,673	202,286
Total receivables	**234,488**	**233,101**

No receivables are considered past due and / or impaired.

7 TERM DEPOSITS (RESTRICTED CASH)

	2015 $	2014 $
Opening balance	-	-
Rehabilitation bond – MLs 5561 & 5562	1,708,776	-
Closing balance	**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 has been lodged. A term deposit is held as security against the bond.

8 PLANT AND EQUIPMENT

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**

2014	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office equipment $	Total $
Gross carrying amount					
Opening balance	72,802	-	9,219	3,697	85,718
Additions	73,821	1,675,027	82,430	5,545	1,836,823
Balance 30 June 2014	146,623	1,675,027	91,649	9,242	1,922,541
Depreciation and impairment					
Opening balance	(69,374)	-	(9,219)	(3,697)	(82,290)
Depreciation	(4,530)	-	(1,911)	(676)	(7,117)
Balance 30 June 2014	(73,904)	-	(11,130)	(4,373)	(89,407)
Carrying amount 30 June 2014	**72,719**	**1,675,027**	**80,519**	**4,869**	**1,833,134**

9 DEVELOPMENT EXPENDITURE

	2015 $	2014 $
Opening balance	-	-
Additions during the year:		
Ore reserve and resource definition	1,739,567	-
Decommissioning asset	558,369	-
Tailings storage facility	2,465,694	
Other development expenditure	588,034	-
Closing balance	**5,351,664**	**-**

All development expenditure relates to the Company's Uley Graphite^{TM} operation.

10 EXPLORATION AND EVALUATION EXPENDITURE

	2015 $	2014 $
Opening balance	356,763	192,129
Expenditure on exploration during the year	962,216	164,634
Closing balance	**1,318,979**	**356,763**

11 TRADE AND OTHER PAYABLES

Trade and other payables, which are all current, recognised in the statement of financial position can be analysed as follows:

	2015 $	2014 $
Trade and other payables	3,497,118	657,213
Accrued expenses	2,012,253	15,674
Total trade and other payables	**5,509,371**	**672,887**

12 SHORT TERM PROVISIONS

All provisions are considered current. The carrying amounts may be analysed as follows:

	2015 $	2014 $
Opening balance	1,878	-
Additional provisions – employee entitlements	148,935	1,878
Closing balance	**150,813**	**1,878**

13 BORROWINGS

The Group's borrowings represent hire purchase of motor vehicles and funding of annual insurance premiums.

	2015 $	2014 $
Current component of borrowing		
Motor vehicle hire purchase	20,606	20,606
Insurance premium funding	174,122	-
Total current component of borrowing	194,728	20,606
Non-current component of borrowing – motor vehicle hire purchase	20,606	41,212
Total borrowings	**215,334**	**61,818**

In the prior year the Company had a loan payable to Strategic Energy Resources Limited. The carrying amounts was as follows:

	2015 $	2014 $
Opening balance	-	282,380
Drawdown of loan	-	69,770
Repayment of loan	-	(352,150)
Closing balance	**-**	**-**

The loan provided by Strategic Energy Resources Ltd (former parent Company) was made under agreement to fund working capital and project expenditure. Under the terms of the agreement Strategic Energy Resources agreed to advance up to $750,000 at a rate of interest of 13% per annum. The full amount of the outstanding loan was repaid on 3 October 2013.

14 SHARE SUBSCRIPTIONS RECEIVED

	2015 $	2014 $
Opening balance	-	-
Share subscription monies received	879,358	-
Closing balance	**879,358**	**-**

The Company announced a pro-rata renounceable rights issue on 7 May 2015 at 29 cents per share, with one free attaching option (in the same class as existing quoted options) for every two shares subscribed. The offer closed on 25 June 2015 with the Company receiving acceptances for a total of 3,032,270 shares to raise $879,358. The shares were issued on 2 July 2015.

15 PROVISIONS

Decommissioning provision – non-current	2015 $	2014 $
Opening balance	-	-
Present value of expected future decommissioning costs	558,369	-
Closing balance	**558,369**	**-**

The provision represents the present value of estimated future decommissioning costs of the Uley Graphite™ site which at the reporting date was restricted to removal of the Phase I processing plant and associated infrastructure and rehabilitation of a portion of the Uley Pit 2 and water treatment areas. The estimated provision brought to account is reflective of the stage of development of the Uley Graphite™ project.

16 ISSUED CAPITAL

2015	Number of shares	$
a) Issued and paid up capital		
Fully paid ordinary shares	193,921,277	27,906,146
	193,921,277	27,906,146
b) Movements in fully paid shares		
Opening balance	168,165,350	13,898,624
Share Placement Plan (SPP)	982,187	687,531
Placement – September 2014	17,142,844	11,999,991
Placement – May 2015	7,117,665	2,064,123
Exercise of listed options	513,231	128,308
Issue costs (net of tax)	-	(872,431)
Balance as 30 June 2015	**193,921,277**	**27,906,146**

2014	Number of shares	$
a) Issued and paid up capital		
Fully paid ordinary shares	168,165,350	13,898,624
	168,165,350	13,898,624
b) Movements in fully paid shares		
Opening balance	217,889,316	3,228,050
Consolidation of capital	(115,194,303)	-
Seed capital	12,500,000	1,000,000
Rights issue – including placement of shortfall	50,698,130	10,139,626
Issue of shares as remuneration	1,039,862	207,973
Exercise of listed options	1,232,345	308,086
Issue costs (net of tax)	-	(985,111)
Balance as 30 June 2014	**168,165,350**	**13,898,624**

The share capital of Valence Industries Ltd consists only of fully paid ordinary shares. All shares are eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Valence Industries Ltd.

None of the parent's shares are held by any company in the Group.

The shares do not have a par value and the Company does not have a limited amount of authorised capital.

In the event of winding up the Group, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

c) Capital management

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure accordingly. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The responses include share issues. The Group's capital is shown as issued capital in the statement of financial position.

The Group is not subject to any external capital restriction as at the reporting date.

17 RESERVES

Balance of share based payments reserve	2015 $	2014 $
Opening balance	1,096,180	-
Issue of options during the year	149,463	766,180
Issue of performance rights during the year	-	440,000
Exercise of performance rights	-	(110,000)
Lapse of options	(84,594)	-
Lapse of performance rights	(330,000)	-
Closing balance	**831,049**	**1,096,180**

Share based payments are in line with the Valence Industries Limited remuneration policy, details which are outlined in the director's report. Listed below are summaries of options and performance rights granted:

2015 Share option reserve	Number of options	2015 $	Weighted average exercise price
Opening balance	21,800,000	766,180	$0.25
Issue of unlisted options to directors	5,500,000	149,463	$1.10
Cancelled / lapsed	(2,050,000)	(84,594)	$0.25
Balance at 30 June 2015	**25,250,000**	**831,049**	**$0.44**

2014 Share option reserve	Number of options	2014 $	Weighted average exercise price
Share option reserve			
Opening balance	-	-	-
Issue of unlisted options to directors	6,500,000	203,957	$0.25
Issue of listed options to underwriters	16,250,000	562,223	$0.25
Cancelled / lapsed	(950,000)	-	$0.25
Balance at 30 June 2014	**21,800,000**	**766,180**	**$0.25**

During the year, the following options were issued:

- 4,000,000 unlisted options with performance conditions were issued to the Managing Director as remuneration. These options have not vested.
- 1,500,000 unlisted options were issued to current Non-executive Directors as remuneration. These options have vested.
- 3,558,837 listed options were issued to sophisticated investors as one free attaching option to every two ordinary shares applied for under a Placement in May 2015.

2015 Performance rights reserve	Number of rights	2015 $
Opening balance	1,375,000	330,000
Lapse of rights	(1,375,000)	(330,000)
Balance at 30 June 2015	**-**	**-**

2014 Performance rights reserve	Number of rights	2014 $
Opening balance	-	-
Issued to Managing Director and CEO	2,750,000	440,000
Exercise of rights	(687,500)	(110,000)
Lapse of rights	(687,500)	-
Balance at 30 June 2014	**1,375,000**	**330,000**

There were no performance rights issued as Director remuneration during the year.

Nature and purpose of reserves

The share based payments reserve is used to recognise the fair value of all equity issued pursuant to share based payments.

18 RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

Operating activities	2015 $	2014 $
Loss after tax	(10,308,483)	(2,961,929)
Share based payments expense	(127,279)	671,457
Tax effect of capital raising costs	373,904	422,190
Capital raising costs expensed	-	427,505
Depreciation expense	213,169	16,269
Decrease/(increase) in receivables	254,210	(244,560)
Increase/(decrease) in payables	1,829,064	218,297
Net cash used in operating activities	**(7,765,415)**	**(1,450,771)**

19 INVESTMENTS IN CONTROLLED ENTITIES

a) Controlled entities

The Company has the following subsidiaries:

Name of subsidiary	Country of registration	Class of shares	Percentage held	
			2015	2014
Valence Industries Operations Pty Ltd	Australia	Ordinary	100%	100%
Valence Industries Services Pty Ltd	Australia	Ordinary	100%	100%
Valence Industries Commercialisation Pty Ltd	Australia	Ordinary	100%	100%
Valence Industries USA Ltd *	USA	Ordinary	100%	0%

* *Valence Industries USA Ltd was registered on 28 July 2014.*

20 AUDITOR REMUNERATION

	2015 $	2014 $
Audit services		
Auditors of Valence Industries Limited – Grant Thornton		
Audit and review of Financial Reports	50,000	26,500
Audit services remuneration	**50,000**	**26,500**
Other services		
Auditors of Valence Industries Limited – Grant Thornton		
IPO investigating accountant's report	-	9,750
Taxation compliance (including one-off reviews and new registrations)	33,050	19,520
Total other services remuneration	**33,050**	**29,270**
Total remuneration received by Grant Thornton	**83,050**	**55,770**

21 COMMITMENTS AND CONTINGENCIES

Exploration commitments

In order to maintain rights of tenure to exploration permits, the Group has certain obligations to perform minimum exploration work and expend minimum amounts of money.

Due to the nature of the Group's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature or amount of future expenditure. It will be necessary for the Group to incur expenditure in order to retain present interests in exploration licences.

Lease commitments

The Company has entered into two 4 year operating leases in relation to office equipment. Minimum lease payments recognised as an expense during the period amount to $7,163. Remaining amounts due are:

	2015 $	2014 $
Within one year	7,814	18,711
After one year but not more than five years	15,629	-
Longer than five years	-	-
	23,443	**18,711**

The prior year commitments related to office and rental property operating leases which are now on a month to month basis.

The Group's operating lease agreements do not contain any contingent rent clauses.

Contingent liabilities

The Group has no contingent assets or liabilities.

22 RELATED PARTY TRANSACTIONS

The Group's related party transactions include its subsidiaries and key management personnel.

a) Transactions with subsidiaries

Loans between entities in the wholly owned Group are not interest bearing, unsecured and are payable upon reasonable notice having regard to the financial stability of the Company.

b) Transactions with key management personnel

Key management personnel remuneration includes the following are is disclosed in detail in the remuneration report:

	2015 $	2014 $
Short-term benefits	1,019,400	676,314
Post employment benefits	45,171	63,672
Share based payments	149,463	657,707
Total remuneration	**1,214,034**	**1,397,693**

The following transactions occurred with KMP:

	2015 $	2014 $
Payment for professional services to entities associated with related parties	1,016,398	708,267
Payables for professional services at reporting date	59,395	68,715

c) Transactions with other related parties

Strategic Energy Resources Limited

Valence Industries Limited (previously Strategic Graphite Limited) was demerged from Strategic Energy Resources in April 2012. At the time of the demerger, SER retained 20% of the shares in Valence. During the prior year, the following transactions occurred between Valence and its former parent company:

- $6,256 administration charges from SER.
- $11,986 interest incurred on the loan between the two entities.
- $51,528 expenses incurred by SER on behalf of the Company.
- Repayment of SER loan of $352,150.

The loan balance has been repaid and is $Nil at 30 June 2015 (2014: $Nil) and the loan facility with SER has terminated upon repayment of the loan.

23 EMPLOYEE REMUNERATION

a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:

	2015 $	2014 $
Salaries / contract payments for Directors and employees	4,664,659	587,678
Share based payments – Director and employee options and performance rights	149,463	671,457
Reversal of share based payment expense – lapsed options and performance rights	(276,742)	-
Employee entitlement provisions	134,731	11,596
Recruitment expense	151,749	-
Less: Transfer to exploration & development assets	(1,316,346)	(47,800)
	3,507,514	**1,222,931**

b) Post employment benefits expense

Expenses recognised for post employment employee benefits are analysed below:

	2015 $	2014 $
Superannuation payments for Directors and employees	258,746	38,125

c) Share based employee remuneration

As at 30 June 2015 the Group maintained a performance rights and option plan for employee and director remuneration. There were 5,500,000 unlisted options granted to Directors as remuneration.

The value of options with a market condition granted in the year is the fair value calculated at grant date using a Black Scholes option-pricing model. The value of each option with a non-market condition such as the achievement of strategic objectives is based on the underlying share price at the grant date. The total value attached to these options takes into account the Company's best estimate at the grant date of the number of rights that will vest.

The table below outlines the inputs used in the Black Scholes fair value calculation for the options:

	2015	2014
Fair value	$0.036	$0.035
Exercise price	$1.10	$0.25
Option life	2.5 years	2.6 years
Underlying share price	$0.40	$0.20
Expected share price volatility	55%	50%
Risk free interest rate	1.89%	2.85%

Share options and weighted average exercise prices are as follows:

2015	Number of options	Weighted average exercise price ($)
Opening balance – remuneration options	5,550,000	0.25
Granted as remuneration during 2014/15	5,500,000	1.10
Exercised / forfeited / expired	(2,050,000)	0.25
Outstanding as at 30 June 2015	**9,000,000**	**0.77**

2014	Number of options	Weighted average exercise price ($)
Opening balance – remuneration options	-	-
Granted as remuneration during 2013/14	6,500,000	0.25
Exercised / forfeited / expired	(950,000)	0.25
Outstanding as at 30 June 2014	**5,550,000**	**0.25**

Fair value of options granted

The fair value at grant date of the Director options has been determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

24 FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The total for each category of financial instruments are as follows:

	Note	2015 $	2014 $
Financial assets			
Cash and cash equivalents	5	1,588,807	6,853,383
Trade and other receivables	6	234,488	233,101
Term deposits (restricted cash)	7	1,708,776	-
		3,532,071	**7,086,484**
Financial liabilities			
Trade and other payables	11	5,509,371	672,887
Borrowings	13	215,334	61,818
Subscriptions received	14	879,358	-
		6,604,063	**734,705**

Financial risk management policy

Risk management is carried out by the Managing Director and CEO under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate and credit risk.

a) *Liquidity risk*

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained for the coming months. Upcoming capital needs and the timing of equity and debt raisings are assessed by the board.

Financial liabilities are expected to be settled within 12 months.

b) *Interest rate risk*

The Group's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result in changes in market interest rates. Cash is the only asset affected by interest rate risk as cash is the Group's only financial asset exposed to fluctuating interest rates.

The Group is exposed to interest rate risk on cash balances and term deposits held in interest bearing accounts. The Board constantly monitors its interest rate exposure and attempts to maximise interest income by using a mixture of fixed and variable interest rates, whilst ensuring sufficient funds are available for the Group's operating activities. The Group's net exposure to interest rate risk at 30 June 2015 approximates the value of cash and cash equivalents.

c) *Sensitivity analysis*

Interest rate

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

		Effect on:	
	Sensitivity*	Profit $	Equity $
2015			
Interest rate	+ 1.50%	+103,200	+103,200
	- 1.50%	-103,200	-103,200
2014			
Interest rate	+ 1.50%	+51,500	+51,500
	- 1.50%	-51,500	-51,500

* *The method used to arrive at the possible change of 150 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, interest rate movements ranged between 0 to 150 basis points. It is considered that 150 basis points a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.*

The fair values of all financial assets and liabilities of the Group approximate their carrying values.

d) *Net fair values of financial assets and financial liabilities*

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amounts of all financial assets and liabilities approximate their net fair values and are disclosed as level 3 fair values.

25 PARENT ENTITY INFORMATION

Information relating to Valence Industries Limited (the parent entity).

	2015 $	2014 $
Statement of financial position		
Current assets	2,131,064	6,909,076
Total assets	14,111,026	8,893,322
Current liabilities	1,878,153	211,603
Total liabilities	1,898,759	252,815
Issued capital	27,906,146	13,898,624
Accumulated losses	16,524,928	6,354,297
Share based payment reserve	831,049	1,096,180
Statement of profit of loss and other comprehensive income		
Loss for the period	10,308,483	3,126,248

The parent entity has not entered into a deed of cross guarantee nor are there any contingent liabilities at the end of the reporting period.

26 GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of a going concern. During the year ended 30 June 2015 the Group recorded a net cash outflow from operating and investing activities of $19,862,724 and an operating loss of $10,308,483.

The forward looking cash projections of the Group indicate that continued operations are reliant on the completion of syndicated debt finance facilities under the Heads of Agreement with Chimaera Capital Markets Pte Ltd announced on 1 May 2015. The group anticipates finalising documentation in October 2015 for an initial US$28 million, drawn in two stages of US$15.5 million and US$12.5 million. If the facility is not completed the Group will be seeking to raise funds from alternative sources to fund operations, its capital works program and working capital purposes.

If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the interim financial report. No allowance for such circumstances has been made in the interim financial report.

27 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.

28 EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the financial year, the Company issued 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 on 2 July 2015 under a renounceable rights issue announced in May 2015.

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 A$3 million in bridge financing with up to a further A$0.5m available under that bridge. The financing has 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 million Initial Facility is satisfied.

On 21 July 2015 the Company announced an additional multi-year, multi-product Sales Contract signed with a major customer for flake graphite sales in excess of US$50m over three years. Graphite supplied under the new contract will 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 exceeds Valence Industries' previously announced weighted average price of US$1,335 per tonne and includes take or pay provisions on the volumes ordered.

On 17 August 2015 the Company announced the appointment of experienced executive and engineer Robert Mencel as Chief Operating Officer to work closely alongside CEO & MD Christopher Darby to deliver operational excellence for Valence Industries.

On 4 September 2015 the Company issued 2,062,500 shares to Rio Tinto Exploration Pty Ltd with respect to concluding legacy royalties. Under the agreement Rio Tinto Exploration Pty Ltd will become a shareholder in the Company with 2,062,500 shares and receive a cash payment of $100,000 concluding all legacy royalties. As part of the agreement, the Company will 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 Graphite™ operations. Concentrate grades of up to 94% have been achieved with high proportions of large flake sizes however production testing has identified process bottlenecks which when removed will 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 will commence upon finalisation of finance facilities. Cost reduction measures have also been implemented including a reduction in Adelaide and Uley workforces.

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 consolidated 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 30 June 2015 and of its performance for the financial period ended on that date; and

   ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b) there are reasonable grounds to believe that Valence Industries Limited will be able to pay its debts when they become due and payable.

The directors have been given the declaration required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2015.

The consolidated financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Christopher Darby
Managing Director & CEO

Adelaide

28 September 2015

Grant Thornton

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF VALENCE INDUSTRIES LIMITED

Report on the financial report

We have audited the accompanying financial report of Valence Industries Limited (the "Company"), which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

GrantThornton

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion
In our opinion:

a the financial report of Valence Industries Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of their performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as going concern
Without qualification to the audit opinion expressed above, we draw attention to Note 26 to the financial report which indicates that the consolidated entity incurred a net loss of $10,308,483 and the consolidated entity cash outflows from operating and investing activities equated to $19,862,724 for the year ended 30 June 2015.

The forward looking cash projections of the Group indicate that the continued operations are reliant on securing a syndicated debt facility and/or alternate forms of capital raising for its capital works and working capital purposes.

Grant Thornton

These conditions, along with other matters as set forth in Note 26, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2015. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Valence Industries Limited for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2015

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 30 September 2015.

The Company is listed on the Australian Securities Exchange.

SUBSTANTIAL SHAREHOLDERS

The substantial shareholder at the date of this report is Strategic Energy Resources Limited – 10.95%

VOTING RIGHTS

Ordinary shares	On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
Options	No voting rights.
Performance Rights	No voting rights.

DISTRIBUTION OF EQUITY BY SECURITY HOLDERS

Holding	Ordinary shares (Quoted)	Ordinary shares (Unquoted)	Options (Quoted)	Options (Unquoted)
1 – 1,000	169	-	226	-
1,001 – 5,000	1,298	-	212	-
5,001 – 10,000	768	-	51	-
10,001 – 100,000	1,545	2	247	10
100,001 and over	253	6	105	46
Number of holders	**4,033**	**8**	**841**	**56**

UNMARKETABLE PARCELS

There were 969 holders of less than a marketable parcel of ordinary shares ($500 amounts to 3,571 shares at 14 cents per share).

RESTRICTED SECURITIES

The escrowed securities, subject to ASX restriction, are all restricted to 6 January 2016 as follows:

ASX restricted – to be quoted	
Ordinary shares (VXL)	32,816,642
Options (VXLO) ($0.25 expiry 31 July 2016)	16,500,000
Unquoted	
Options ($0.25 expiry 31 July 2016)	3,500,000

BUSINESS OBJECTIVES

The Company has used its cash and assets readily convertible to cash in a way consistent with its business objectives.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

TWENTY LARGEST HOLDERS OF QUOTED ORDINARY SHARES

		No. of shares held	% held
1	Avatar Energy Pty Ltd	7,051,606	4.24%
2	BNP Paribas Noms Pty Ltd <DRP A/C>	3,980,918	2.40%
3	Mr Carl Eric Holt & Mrs Lorraine Holt <Holt Super Fund A/C>	3,750,000	2.26%
4	Chimaera Capital Limited	2,975,000	1.79%
5	Citicorp Nominees Pty Limited	2,933,334	1.76%
6	G & N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C>	2,800,000	1.68%
7	LB Management Pty Ltd	2,610,000	1.57%
8	J P Morgan Nominees Australia Limited	2,392,073	1.44%
9	Rio Tinto Exploration Pty Limited	2,062,500	1.24%
10	Ozsun Investments Pty Ltd	1,735,715	1.04%
11	Mr Ian David Pattison & Ms Katherine Margaret Forrest <Sylvan Super Fund A/C>	1,680,000	1.01%
12	Grandlodge Pty Ltd	1,535,029	0.92%
13	Insync Investments Pty Ltd <Weekley Super Fund No 1 A/C>	1,530,000	0.92%
14	Whitesman Investments Pty Ltd < Whitesman Super Fund No 1 A/C>	1,427,120	0.86%
15	National Nominees Limited <DB A/C>	1,319,101	0.79%
16	HSBC Custody Nominees (Australia) Limited	1,247,829	0.75%
17	Custodial Services Limited <Beneficiaries Holding A/C>	1,051,667	0.63%
18	Sonlen Pty Limited <The Sonlen Super Fund A/C>	1,039,844	0.63%
19	Mr Anthony Lionel Patterson & Mrs Erryn Elvie Patterson <Paterson Family A/C>	1,000,000	0.60%
20	Kirzy Pty Ltd <Springdale No 2 A/C>	922,667	0.56%
		45,044,403	**27.09%**
	Total quoted ordinary shares on issue	**166,199,572**	**100.00%**

The table above only includes those shares that are quoted on ASX. Total number of shares to be quoted at 30 September 2015 is 199,016,214.

TWENTY LARGEST HOLDERS OF QUOTED OPTIONS – $0.25 EXPIRY 31 JULY 2016

		No. of options held	% held
1	BNP Paribas Noms Pty Ltd <DRP>	3,267,467	5.72%
2	Chimaera Capital Limited	3,012,500	5.27%
3	G & N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C>	2,800,000	4.90%
4	Mr Ian David Pattison & Ms Katherine Margaret Forrest <Sylvan Super Fund A/C>	1,420,000	2.48%
5	Insync Investments Pty Ltd <Weekley Super Fund No 1 A/C>	1,250,000	2.19%
6	Mr Carl Eric Holt & Mrs Lorraine Holt <Holt Super Fund A/C>	1,250,000	2.19%
7	A P Reyem Pty Ltd	1,208,842	2.12%
8	Ateq Investments Pty Ltd	1,098,125	1.92%
9	Mr Andrew Lenox Hewitt	1,062,222	1.86%
10	Clapsy Pty Limited <Superannuation Fund A/C>	1,000,000	1.75%
11	Mrs Jane Christabel Kidman <Jane Kidman A/C>	911,678	1.60%
12	Aust Executor Trustees Ltd <DS Capital Growth Fund>	820,000	1.43%
13	LB Management Pty Ltd	678,321	1.19%
14	June Kahan Enterprises Pty Ltd <June Kahan Growth Fund A/C>	665,789	1.16%
15	Fuddy Pty Ltd <Pattison Super Fund A/C>	650,000	1.14%
16	Meyer Enterprises (Australia) Pty Limited <The Meyer Growth B Fund A/C>	644,838	1.13%
17	Kirzy Pty Ltd <Springdale No 2 A/C>	635,000	1.11%
18	Grandlodge Pty Ltd	625,000	1.09%
19	Yasindo Holdings Pty Ltd	610,000	1.07%
20	Somnus Pty Ltd <Somnus Superannuation A/C>	600,000	1.07%
		24,209,782	**42.39%**
	Total quoted options on issue	**57,152,418**	**100.00%**

The table above only includes those options that are quoted on ASX. Total number of options to be quoted at 30 September 2015 is 73,402,418.

TWENTY LARGEST HOLDERS OF ALL ORDINARY SHARES ON ISSUE

		No. of Shares Held	% Held
1	Strategic Energy Resources Ltd	21,788,907	10.95%
2	Avatar Energy Pty Ltd	7,051,606	3.54%
3	E E R C Australasia Pty Ltd <Super Fund A/C>	6,631,470	3.33%
4	BNP Paribas Noms Pty Ltd <DRP A/C>	3,980,918	2.00%
5	Mr Carl Eric Holt & Mrs Lorraine Holt <Holt Super Fund A/C>	3,750,000	1.88%
6	Mr Mark Anthony Muzzin	3,304,954	1.66%
7	Chimaera Capital Limited	2,975,000	1.49%
8	Citicorp Nominees Pty Limited	2,933,334	1.47%
9	G & N Lord Superannuation Pty Ltd <GNR Superannuation Fund A/C>	2,800,000	1.41%
10	LB Management Pty Ltd	2,610,000	1.31%
11	J P Morgan Nominees Australia Limited	2,392,073	1.20%
12	Rio Tinto Exploration Pty Limited	2,062,500	1.04%
13	Ozsun Investments Pty Ltd	1,735,715	0.87%
14	Mr Ian David Pattison & Ms Katherine Margaret Forrest <Sylvan Super Fund A/C>	1,680,000	0.84%
15	Grandlodge Pty Ltd	1,535,029	0.77%
16	Insync Investments Pty Ltd <Weekley Super Fund No 1 A/C>	1,530,000	0.77%
17	Whitesman Investments Pty Ltd < Whitesman Super Fund No 1 A/C>	1,427,120	0.72%
18	National Nominees Limited <DB A/C>	1,319,101	0.66%
19	HSBC Custody Nominees (Australia) Limited	1,247,829	0.63%
20	Custodial Services Limited	1,051,667	0.53%
		73,807,223	**37.07%**
	Total ordinary shares on issue	**199,016,214**	**100.00%**