VALENCE INDUSTRIES

ACN 008 101 979

Valence Industries Limited

(previously Strategic Graphite Limited)

Interim Financial Statements

for the half-year ended 31 December 2013
to be read in conjunction with the 30 June 2013 Annual Report

The information in this Report which relates to Indicated and Inferred Mineral Resources compiled in accordance with the JORC Code 2012 is based on information supplied by Ms. Karen Lloyd, Mr. Ingvar Kirchner and Ms. Ellen Maidens as detailed in the Company's Replacement Prospectus released as an ASX announcement on 18 November 2013. The Company confirms that it is not aware of any new information included in this half-year report. Valence confirms that all material assumptions underpinning the estimates in this report continue to apply and have not materially changed. The Company confirms that the form and content in which the Competent Person's findings are presented have not been materially modified.

Contents

This Interim Report covers Valence Industries Limited ("Valence" or the "Company") as a Group consisting of Valence Industries Limited 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.

Registered Office	Level 1, 67 Greenhill Road Wayville SA 5034
Principal place of Business	Ground Floor, 60 Hindmarsh Square Adelaide SA 5000
Website	www.valenceindustries.com

Directors' Report

The Directors of Valence Industries Limited present their Report together with the financial statements of the consolidated entity, being Valence Industries ("Valence" or "the Company") and its controlled entities ("the Group") for the half year ended 31 December 2013 and the Independent Review Report thereon.

DIRECTORS

The following persons were directors of Valence during the period.

- Graham Spurling - Chairman (Commenced 16 September 2013)
- Christopher Darby - Managing Director & CEO (Commenced 16 September 2013)
- Glenister Lamont - Non-executive Director
- Ian Schache - Non-executive Director (Commenced 26 September 2013)
- Peter Armitage - Non-executive Director (Resigned 16 September 2013)
- Mark Muzzin - Non-executive Director (Resigned 16 September 2013)
- Anthony Rechner - Non-executive Director (Resigned 16 September 2013)

Company Secretary

- Jaroslaw Kopias (Appointed 16 September 2013)
- Melanie Leydin (Resigned 16 September 2013)

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

During the six month period to 31 December 2013, Valence raised $1,000,000 in capital to enable it to undertake the activities required to list on the Australian Securities Exchange (ASX).

During the period Valence repaid a loan of $352,150 to its former parent company Strategic Energy Resources Limited (ASX:SER) having been funded by SER up to the raising of funds in the period.

Valence Industries commenced the process to list on the (ASX) in the second half of 2013 and was admitted to the official list on 6 January 2014 following the successful capital raising under the Company's rights issue Prospectus – having raised $6,734,735 (before costs of the offer). The Company issued 33,673,677 Shares and 36,798,678 Listed Options upon admission to the ASX. Subsequent to the balance date, the Company placed the remaining shortfall of 17,024,453 shares and 17,024,453 listed options under the Prospectus raising a further $3,404,891 and raising the full subscription amount of $10,139,626 under the prospectus.

The Group undertook a number of corporate changes during the 6 months period to 31 December 2013 as listed below:

- Resignations and appointments of Directors and Company Secretary as listed in the Directors section above.
- Change of name from Strategic Graphite Limited to Valence Industries Limited as approved by shareholders at the 2013 AGM (AGM).
- Consolidation of share capital on a 1 for 2 basis as approved at the AGM.
- Adoption of new Corporate Governance policies as detailed in the Company's Prospectus.

No dividends were paid or proposed in the period.

Established Graphite Facilities

The mine has been a globally recognised graphite pioneer since 1880. The Uley Graphite facility remains a leader in the graphite space and is Australia's only graphite manufacturer, focussing on Asia Pacific, European and North American customers. Valence Industries owns established processing facilities and infrastructure to manufacture a wide range of graphite product lines for multiple applications and multiple industries.

Located only 23 kilometres from Port Lincoln, the regional centre for the Lower Eyre Peninsula in South Australia, the Valence Industries Uley Graphite project is recognised as a substantive and significant area of graphite mineralisation, and one of the largest coarse flake graphite deposits in the world. The deposit contains disseminated, high-grade flake graphite and the mineralisation is near surface, with the final manufactured graphite products recognised by many customers for its high quality.

The company holds two existing Mining Licences and two associated Retention Leases, along with an extensive Exploration Licence for the conduct of its operations. In addition Valence Industries is in the fortunate position of owning the land on which its current and proposed expanded operations are conducted along with the extensive existing infrastructure.

Operations and Production

The Uley Graphite facilities produced graphite successfully from the early 1800's up to 1993. The Company is in the process of fast tracking the restart of graphite manufacturing from the Uley Graphite facilities at a time when there is strong demand for high-grade flake graphite.

The proceeds from the capital raising activity have been used primarily in the program to re-commence the manufacturing of a range of high quality graphite products from Valence Industries' existing facilities and for engaging with global customers for the sale of graphite from the Company's Uley Graphite Facilities.

People and Community

The Company also embarked on a programme to recruit personnel and contractors. This process will continue as Valence Industries rapidly transitions from a care and maintenance phase to graduated and consistent graphite manufacturing. Valence Industries has focused in its engagement process on recruiting local personnel, suppliers and contractors and on maintaining its position as an important part of the South Australian community. This is a position which the Company and its operations have performed in South Australia and in the Port Lincoln region since the later 1800's and it is a role the Company values and intends to grow over the coming years.

The net loss of the Group, from the six months to 31 December 2013, was $1,786,880.

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 3 of this financial report and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

Managing Director and CEO
25 February 2014

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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 review of Valance Industries Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 25 February 2014

Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2013

	Notes	31 December 2013 $	31 December 2012 $
Interest income		-	-
Administration costs		(182,703)	(18,723)
Employee benefits expense		(188,024)	-
Depreciation		(1,791)	(1,718)
Exploration expenditure written off		-	(15,059)
Interest Expense		(11,986)	-
Share based payments		(657,707)	-
Capital Raising Costs		(392,411)	-
Loss before tax		(1,434,622)	(35,500)
Income Tax (expense) / benefit		(352,258)	-
Gain / (Loss) for the reporting period		(1,786,880)	(35,500)
Other Comprehensive income		-	-
Total Comprehensive income / (loss) for the period		(1,786,880)	(35,500)
Income / (loss) attributable to:			
Owners of the parent entity		(1,786,880)	(35,500)
Total Comprehensive Income / (Loss) attributable to:			
Owners of the parent entity		(1,786,880)	(35,500)
Earnings Per Share from Continuing Operations			
Basic Earnings / (Loss) – cents per share	2	(0.89)	(0.02)

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

Statement of Financial Position
As at 31 December 2013

	Notes	31 December 2013 $	30 June 2013 $
ASSETS			
Current assets			
Cash and cash equivalents		6,581,020	5,029
Trade and other receivables		74,288	-
Total current assets		6,655,308	5,029
Non-current assets			
Exploration and evaluation expenditure	3	232,378	192,129
Plant and equipment		1,636	3,428
Total non-current assets		234,014	195,557
TOTAL ASSETS		6,889,322	200,586
LIABILITIES			
Current liabilities			
Trade and other payables		637,318	82,524
Borrowings		-	282,380
Total current liabilities		637,318	364,904
TOTAL LIABILITIES		637,318	364,904
NET ASSETS		6,252,004	(164,318)
EQUITY			
Issued capital		10,211,322	3,228,050
Reserves		1,219,930	-
Accumulated losses		(5,179,248)	(3,392,368)
TOTAL EQUITY		6,252,004	(164,318)

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

Statement of Changes in Equity
For the half year ended 31 December 2013

	Share capital	Option reserve	Retained earnings	Total equity
	$	$	$	$
Balance at 1 July 2012	3,228,050	-	(3,214,270)	13,780
Issue of shares	-	-	-	-
Transactions with owners	3,228,050	-	(3,214,270)	13,780
Other comprehensive income:				
Total comprehensive (loss) for the reporting period	-	-	(35,500)	(35,500)
Balance 31 December 2012	**3,228,050**	**-**	**(3,249,770)**	**(21,720)**
Balance at 1 July 2013	3,228,050	-	(3,392,368)	(164,318)
Issue of Shares	6,983,272	-	-	6,983,272
Fair value of Options issued	-	766,180	-	766,180
Fair value of Performance Rights issued	-	453,750	-	453,750
Transactions with owners	10,211,322	1,219,930	(3,392,368)	8,038,884
Other comprehensive income:				
Total comprehensive income for the reporting period	-	-	(1,786,880)	(1,786,880)
Balance 31 December 2013	**10,211,322**	**1,219,930**	**(5,179,248)**	**6,252,004**

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

Statement of Cash Flows
For the half year ended 31 December 2013

	Notes	31 December 2013 $	31 December 2012 $
Operating activities			
Payments to suppliers and employees		(294,439)	(132)
Interest paid		(11,986)	-
Net cash used in operating activities		(306,425)	(132)
Investing activities			
Payments for capitalised exploration expenditure		(21,339)	-
Net cash used in investing activities		(21,339)	-
Financing activities			
Proceeds from issue of share capital		7,734,735	-
Capital raising costs		(548,600)	-
Drawdown of Loan		69,770	-
Repayment of Loan		(352,150)	-
Net cash from financing activities		6,903,755	-
Net change in cash and cash equivalents		6,575,991	(132)
Cash and cash equivalents, beginning of reporting period		5,029	5,293
Cash and cash equivalents, end of year		6,581,020	5,161

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

Notes to the financial statements
For the period ended 31 December 2013

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of operations

Valence Industries' principal activity is the manufacture, mining and exploration for graphite deposits in South Australia.

b) General information and basis of preparation

The condensed interim financial statements (the interim financial statements) of the Group are for the six months ended 31 December 2013 and are presented in Australian dollars($), which is the functional currency of the Group. These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 *Interim Financial Reporting.* They do not include all of the information required in annual financial statements in accordance with AIFRS, and should be read in conjunction with the financial statements of the Group for the year ended 30 June 2013 and any public announcements made by the Group during the half-year in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the board of directors on 25 February 2014.

c) Significant accounting Policies

The significant accounting policies that have been used in the preparation of these interim financial statements are summarised below.

The financial statements have been prepared using the measurement bases specified by the Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2013, except for the application of the following standards as of 1 January 2013:

- AASB 10 *Consolidated Financial Statements*;
- AASB 11 *Joint Arrangements*;
- AASB 13 *Fair Value Measurement*; and
- AASB 119 *Employee Benefits* (September 2011)

Management has reviewed the new requirements of the above standards and has concluded that there is no effect on the classification or presentation of balances as the group has no arrangements within the scope of the above standards.

d) 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.

ii) Key judgements – exploration and evaluation expenditure

Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources.

Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest.

Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

2. EARNINGS PER SHARE

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	6 months to December 2013 #	6 months to December 2012 #
Weighted average number of shares used in basic earnings per share	199,811,648	217,889,316

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

3. EXPLORATION AND EVALUATION EXPENDITURE

	31December 2013 $	30 June 2013 $
Opening balance	192,129	-
Expenditure on exploration during the period	40,249	192,129
Closing balance	232,378	192,129

4. ISSUED CAPITAL

	31December 2013 $	30 June 2013 $
(a) Issued and paid up capital		
Fully paid ordinary shares	10,211,322	3,228,050

	Number	$
(b) Movements in fully paid shares		
Balance as 30 June 2012	435,778,124	3,228,050
Consolidation of capital – December 2012	(217,888,808)	-
Balance at 30 June 2012	217,889,316	3,228,050
Placement – September / October 2013	12,500,000	1,000,000
Consolidation of capital – November 2013	(115,194,303)	-
Rights issue and placement (IPO prospectus) – December 2013	33,673,677	6,734,735
Issue of shares to former directors as remuneration	352,362	70,472
Capital raising costs (net of tax)	-	(821,935)
Balance as 31 December 2013	149,221,052	10,211,322

5. 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.

6. CONTINGENT LIABILITIES

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

7. RELATED PARTIES

Strategic Energy Resources Limited (SER) is a related party to Valence Industries Limited. The directors of the Group were all directors of SER, and it is therefore a related party in accordance with the definitions contained in AASB 124 'Related Party Transactions'.

The loan provided by (SER) was made on normal commercial terms and conditions and to fund working capital and project expenditure. Under the terms of the agreement SER had agreed to advance up to $750,000 at a rate of interest of 13% per annum. The full amount of the outstanding loan was due for repayment on or before 31 December 2014.

During the year, the loan increased from $282,390 to $352,150 prior to repayment in October 2013.

Interest of $11,986 had accrued on the loan balance during the period to repayment.

8. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

On 6 January 2014, the Company was admitted the official list of the ASX following the issue of 33,673,677 shares (Shares) and 36,798,678 listed options (Listed Options) with an exercise price of 25 cents and expiry of 31 July 2016. The Shares and Listed Options were issued under the replacement prospectus (Prospectus) dated 15 November 2013 raising $6,734,735. The Company commenced trading on ASX under the code VXL and the Listed Options under VXLO.

On 4 February 2014, the Company placed the shortfall under the rights issue Prospectus to raise a further $3,404,891. Under the shortfall, a further 17,024,453 Shares and Listed Options were issued.

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 financial statements and notes of Valence Industries Limited are in accordance with the *Corporations Act 2001,* including:

   i. giving a true and fair view of its financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

   ii. complying with Accounting Standard 134 Interim Financial Reporting and the *Corporations Regulations 2001*; and

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

Signed in accordance with a resolution of the Directors:

Christopher Darby
Managing Director and CEO

Adelaide
25 February 2014

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

We have reviewed the accompanying half-year financial report of Valence Industries Limited ("Company"), which comprises the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Valence Industries Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Valence Industries Limited financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Valence Industries Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Valence Industries Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the Company's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 25 February 2014