



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

Q1 2014

ASX: VXL & VXLO

Valence Industries' program to recommission its existing Uley Graphite manufacturing facilities is progressing well and initial sales have been made to Japan

Securities on issue

Shares: 166,937,850

Listed options: 70,068,286

Unlisted options: 6,500,000

Unlisted performance rights:
2,062,500

Board of Directors

Graham Spurling, AM
Non-executive Chairman

Christopher S. Darby
Managing Director & CEO

Glenister Lamont
Non-executive Director

Ian Schache
Non-executive Director

Jarek Kopias
Company Secretary & CFO

- Valence Industries was listed on the ASX on 6 January 2014 raising capital of AUD\$10.1M at listing and in a shortfall placement
- The Company sold its first high grade flake graphite in April 2014 to a Japanese customer in the Asia Pacific for uses ranging from industrial lubricants and refractories through to battery grade applications.
- Key stages of Phase I recommissioning of the existing Uley Graphite facilities (~14,000 tonnes of graphite per year) were completed in the first three months, including:
 - re-engineering and design,
 - structural and plant assessment,
 - refurbishment of washing, drying, dust collection and screening units,
 - reprocessing of the first existing graphite products for sale.
- Completion of refurbishment of the secondary processing plant and staged restart of Phase I fines stockpile processing is scheduled to commence during July 2014.
- The Bankable Feasibility Study for the Phase II planned new open pit and the expansion of production capacity by up to 60,000 tonnes is in progress and due for completion in the September quarter.
- Plans for the Company's Phase III high purity graphite program has been further developed and a key agreement with the University of Adelaide for graphene research and commercialisation was signed in March 2014.

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ASX LISTING IN JANUARY 2014

Valence Industries was listed on the Australian Securities Exchange (ASX) and its issued shares (VXL) and options (VXLO) commenced trading on 6 January 2014. The listing followed a successful capital-raising program, which saw the company raising \$10.1M under its prospectus.

The listing was originally scheduled for December 2013 but was delayed to January 2014 due to a range of factors including delays in postage to the company's 3800 shareholders and the holiday period at the end of December 2013. This delay to the listing also delayed the start of the program for recommissioning of the Uley Graphite facilities.

Valence is currently completing the Phase I program to bring the Uley Graphite manufacturing facilities back into production. Concurrently the company is preparing the Phase II Bankable Feasibility Study and planning for its Phase III high purity facilities and its graphene development and commercialisation program in conjunction with the University of Adelaide.

ULEY GRAPHITE & MANUFACTURING FACILITIES

Valence Industries is the 100% owner of the Uley Graphite manufacturing facilities in South Australia. These are the only graphite manufacturing facilities in Australia. Those facilities include significant graphite processing plant, equipment, infrastructure, and a JORC 2012 Indicated & Inferred Mineral Resource estimate of 6.4Mt at an average grade of 7.1%. The assets are located on the freehold land and within the Mining Licences owned by Valence Industries.

Located 23 kilometres from Port Lincoln, the regional centre for the Lower Eyre Peninsula in South Australia, Valence Industries' Uley Graphite manufacturing facilities are also recognised as containing a significant area of graphite mineralisation, and one of the larger coarse flake graphite deposits in the world. The deposit contains disseminated, high-grade flake graphite and the mineralisation is near surface.

During the quarter Valence Industries undertook \$528,000 of expenditure on construction of the Uley plant, \$50,000 on development activities, \$73,000 on production activities and \$42,000 on exploration activities. The activities were related to the recommissioning program.

Phase I: Recommissioning 14,000tpa

Valence Industries has continued to recommission the existing graphite manufacturing plant and equipment to bring the facility off care and maintenance at the Uley site. The start of this program was delayed due to the later than scheduled listing but a significant amount of work has been completed in the first quarter. No substantive challenges have been encountered to date in the phased recommissioning program.

The existing process plant and equipment are comprised of two distinct sections:

- The primary processing plant which is used to screen, wash and grind the raw run of mine material and produce a feed product for the next stage of processing.
- The secondary processing plant takes the feed from the primary processing plant and processes that material to manufacture and package a range of graphite products.

During the quarter Valence has completed:

- the further re-engineering and re-design of both the primary processing plant and the secondary processing plant;
- a review of the structural integrity of the existing process buildings and the associated structural work and refurbishment;
- the review, refurbishment and reinstallation of plant and equipment for the secondary processing facility and initial staged equipment testing (including washing, drying and dust systems);
- the new mobile primary processing plant has been sourced and is now awaiting transport to site and the existing primary processing plant has been dismantled;
- the retreatment and packaging of existing processed graphite stockpiles for initial export sales;
- close work with the South Australian regulators to ensure that the facilities meet the highest regulatory, work approval and environmental management standards that help Valence Industries to market its products internationally.

Work over the next quarter and the remainder of the year is expected to include:

- sales of graphite from the reprocessed material to customers in the Asia Pacific,
- completion of the redesign of existing tailings areas and associated site infrastructure, and advancing the refurbishment of the existing on-site laboratory facilities,
- staged further recommissioning of the secondary processing plant during June and September 2014 quarters,
- the Company expects to process existing fines stockpiles in the June and September 2014 quarters with volumes of production expected to increase during the September 2014 quarter to produce flake graphite for a range of applications,
- treatment of the run of mine stockpile is scheduled to occur during the September and December 2014 quarters.

The Company is focussed on managing the transition of its existing programs and facilities to meet the highest regulatory, safety and environmental management standards. While Valence has existing licences to operate the Uley mine and manufacturing facilities under the current care and maintenance program the Company has agreed with the South Australian regulators that it will transition to a more modern regulatory structure before significant processing is undertaken. This transition is expected to occur while the current refurbishment work is being implemented.

Phase II: Expanding Manufacturing by 60,000tpa

In the March 2014 quarter Valence Industries commenced the Bankable Feasibility Study. The Bankable Feasibility Study focuses on the following distinct aspects of the expansion program and the associated approvals for the Uley Graphite manufacturing facilities:

- Plant: The engineering and design of new graphite manufacturing facilities to increase annual graphite production capacity by up to another 60,000 tonnes of graphite per year.

- Pit: The design of extensions to the existing open pit and the development of a new open pit mining capability to create feed run of mine material for both the existing manufacturing facilities and the proposed expanded manufacturing facilities.
- Customers: The program for extending sales to meet the increasing production levels from the Uley Graphite facilities and to meet customer demand in the Asia Pacific, Europe and North America across a range of industries and applications.
- Regulatory: Ensuring the new manufacturing facilities and associated mining program meet all modern regulatory requirements.

As part of the Bankable Feasibility Study process Valence Industries will undertake a diamond-drilling program across the existing JORC 2012 Indicated & Inferred Mineral Resource area. The drilling program is scheduled to occur during the June Quarter 2014 and is designed to provide:

- the further definition of the Mineral Resource body to the confidence level required for the Bankable Feasibility Study and for conversion to and preparation of an Ore Reserve estimate, optimisation and pit design;
- geotechnical and other information for the purposes of completing the existing pit design; and
- additional samples for the purpose of further metallurgical work to permit further refinement to the new process plant design.

The start of the Bankable Feasibility Study, like the other programs, was delayed and is now planned to be completed in the September 2014 quarter.

Engagement with potential financiers has continued into the current quarter. Several verbal expressions of interest in the funding of Phase II and Phase III programs have been received by Valence. That interest has come from both the traditional banking sector and from a range of venture capital providers within Australia and in Japan, Singapore, Germany, the UK and the USA. The company is actively assessing and modelling the range of proposals to refine the financial structure and funding requirements on the basis that will best serve the interests of the Company and its shareholders.

Phase III: High Purity Program

In the March 2014 quarter Valence Industries has advanced elements of the program to develop its high purity capability. The company initiated the first steps for its pursuit of future development and diversification of its products into high purity graphite and graphene.

The Phase III high purity program is focused on further value adding to the base graphite product lines that are produced from Valence Industries' facilities at the Uley Graphite site. It will take the existing base graphite products and through a range of Valence Industries' proprietary applications and physical interventions increase the purity levels of the graphite above 99.99% total graphitic carbon (TGC). This process involves additional capital and operational expenditure but significantly increases the price ranges for the resulting graphite products.

In March 2014, Valence Industries signed a Joint Research, Development & Commercialisation Agreement with the University of Adelaide for the proposed development and commercialisation of all new graphene research through a new Graphene Research Centre to be based in South Australia. The company proposes to

commit funding to this program in accordance with budgets to be approved by the University of Adelaide and by the Board of Valence Industries.

SHAREHOLDER & CORPORATE TRANSACTIONS

On 6 January 2014 Valence Industries was listed on the ASX and on 30 January 2014 the Company successfully completed a rights issue and shortfall placement to raise \$10.14 million (before costs).

In March 2014, Valence Industries completed the sale of shares in the Company on behalf of foreign shareholders who were ineligible to participate in the in-specie distribution of Valence shares by its former parent company Strategic Energy Resources Limited.

A proposal for the sale of unmarketable parcels of shares in the Company was initiated during the March 2014 quarter and the sales of those shares are anticipated to occur progressively during June 2014 quarter.

During the March 2014 quarter the first exercise of the Company's listed options occurred with a small corresponding investment into the Company.

TENEMENT LISTING

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

¹ interest held at the end of the quarter

Christopher S. Darby
Managing Director & CEO
VALENCE INDUSTRIES

APPENDIX A – Forward looking and Cautionary statements

Forward-Looking Statement

Certain statements made in this announcement, including, without limitation, those concerning the Bankable Feasibility Study, contain or comprise certain forward-looking statements regarding Valence Industries Limited's exploration activities, economic performance and financial condition. Although Valence believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in graphite prices, exchange rates and business and operational risk management. Valence undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.

Competent Person Reference

The production targets and other information in this announcement that relates to Mineral Resources is based on, and fairly represent, the Mineral Resources and information and supporting documentation extracted from the report, which was prepared by a competent person in compliance with the JORC Code (2012 edition) and released to ASX by the Company on 18 November 2013. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. All material assumptions and technical parameters underpinning the Mineral Resource estimates in that previous release continue to apply and have not materially changed.

The information in this report that relates to the Bankable Feasibility Study, and Mineral Resources is based on information compiled by Ms Karen Lloyd, who has been engaged as General Manager – Technical Delivery by Valence Industries. Ms Lloyd is a Member of the Australian 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 activities 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 consents to the inclusion in this release of the matters based on their information in the form and context as it appears.

Cautionary Note

The ongoing studies referred to in this report is based on mid level technical and economic assessments which are insufficient to support estimation of Ore Reserves or to provide assurance of an economic development case at this stage, or to provide certainty that the conclusions of the existing studies will be realised. There is a mid level of geological confidence associated with Inferred and Indicated Mineral Resources and there is no certainty the production targets will be realised. The Company advises that the plans and production targets reflected in this announcement are preliminary in nature as conclusions are partly drawn from Inferred Resources.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

Valence Industries Limited

ABN

41 008 101 979

Quarter ended ("current quarter")

31 March 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (3 months) \$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(42) (50) (73) (447)	(42) (50) (73) (447)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
Net Operating Cash Flows		(612)	(612)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (528)	- - (528)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- - -
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
Net investing cash flows		(528)	(528)
1.13	Total operating and investing cash flows (carried forward)	(1,140)	(1,140)

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,140)	(1,140)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,405	3,405
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	(699)	(699)
	Net financing cash flows	2,706	2,706
	Net increase (decrease) in cash held	1,566	1,566
1.20	Cash at beginning of quarter/year to date	6,581	6,581
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	8,147	8,147

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	162
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees, superannuation and consulting fees paid to entities associated with Directors.

Non-cash financing and investing activities

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

Nil

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

Nil

Mining exploration entity and oil and gas exploration entity quarterly report

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	3,000
4.3 Production	750
4.4 Administration	300
Total	4,300

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	147	-
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	8,000	-
Total: cash at end of quarter (item 1.22)	8,147	Not applicable

Changes in interests in mining tenements and petroleum tenements

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

Mining exploration entity and oil and gas exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	166,933,005	134,116,363		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	17,024,453 687,500	17,024,453 -	20.00 cents Nil	20.00 cents Nil
7.5 *Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				

7.7	Options (description and conversion factor)	70,073,131	53,823,131	Exercise price 25.00 cents	Expiry date 31 July 16
		3,500,000 (vested)	-	25.00 cents	31 July 16
		950,000 (31 May 14 KPI)	-	25.00 cents	31 July 16
		1,550,000 (31 Oct 14 KPI)	-	25.00 cents	31 July 16
		500,000 (30 Jun 15 KPI) (unvested)	-	25.00 cents	31 July 16
7.8	Issued during quarter	17,024,453	17,024,453	25.00 cents	31 July 16
7.9	Exercised during quarter	-	-		
7.10	Expired during quarter	-	-		
7.7	Performance Rights (description and conversion factor)			Exercise price	Expiry date (KPI based)
		687,500	-	Nil	31 May 14
		687,500	-	Nil	31 October 14
		687,500	-	Nil	30 June 2015
7.8	Issued during quarter	-	-		
7.9	Exercised during quarter	687,500	-		
7.10	Expired during quarter	-	-		
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

Compliance statement

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

Sign here: _____

Date: 30 April 2014

Company secretary

Print name: Jaroslaw (Jarek) Kopias

Notes

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