



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

Q2 2014

ASX: VXL & VXLO

Valence Industries' makes first sale of flake graphite from Australia in 20+ years from its Uley Graphite facility and develops the Bankable Feasibility Study to significantly expand production capacity

Securities on issue

Shares: 168,415,350

Listed options: 68,590,786

Unlisted options: 5,550,000

**Unlisted performance rights:
1,375,000**

Board of Directors

Graham Spurling, AM
Non-executive Chairman

Christopher S. Darby
Chief Executive Officer & M.D.

Glenister Lamont
Non-executive Director

Ian Schache
Non-executive Director

Jarek Kopias
Company Secretary & CFO

- Confirmation that Uley Graphite produces only the highest quality flake graphite with significant quantities of +50 Mesh (large flake) with no amorphous graphite present.
- First sales contract for high grade flake graphite in April 2014 from historical production for uses from industrial lubricants and refractories to battery grade applications.
- Key stages of Phase I recommissioning program for the existing Uley Graphite facilities (~14,000 tonnes of flake graphite per year) continued in the second three months of 2014, including:
 - Primary screening units
 - Flotation & Collection Tanks
 - Main Slurry Tank
 - Fluid Bed Gas-Fired Dryer
 - Travelators & Screening
 - Dust Collection.
- Completion of refurbishment of the secondary processing plant and the staged restart of Phase I fines stockpile processing is scheduled to continue during the September Quarter of 2014.
- The Bankable Feasibility Study for the Phase II Uley Pit 2 and expansion of production capacity by up to 60,000 tonnes to be completed next quarter.
- Planning for the Company's Phase III high purity graphite program has continued and will advance during 2015.
- Valence Industries continues its partnership with the University of Adelaide through the Graphene Research Centre consistent with the Company's commitment to advanced manufacturing.

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COMPANY

Valence Industries was listed on the Australian Securities Exchange (ASX) and its issued shares (VXL) and options (VXLO) commenced trading on 6 January 2014.

Valence is currently completing the Phase I program to bring the existing Uley Graphite manufacturing facilities back into production. Concurrently the company is completing 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.

GRAPHITE PRODUCTION & 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 flake graphite mineralisation, and one of the larger coarse flake graphite deposits in the world. Tertiary metallurgy programs confirm a strong spread of flake graphite including +50 Mesh (large flake) from the Uley Graphite deposits. Testing has confirmed Valence has no amorphous graphite present. The deposit contains disseminated, high-grade flake graphite and the mineralisation is near surface.

During the quarter Valence Industries undertook \$934,000 of expenditure on recommissioning of the Uley Phase I process facilities, \$147,000 on development activities, \$108,000 on production activities and \$104,000 on exploration activities with committed expenditure in place over the next quarter in line with the program for the recommissioning of the existing facility.

Sales of Flake Graphite

Consistent with its development pathway, Valence Industries signed the first agreement for the sale of graphite from historical production at its Uley Graphite facilities in regional South Australia. This is the first sale of graphite by an Australian manufacturer for over 20 years and marked a significant milestone for Valence Industries. Valence Industries signed that first sales agreement with a customer in Japan in April 2014 for uses ranging from industrial lubricants and refractories through to battery grade applications. This sale of graphite is consistent with Valence Industries staged commissioning program. As planned, this first stage involved rescreening and classification of graphite previously produced at site.

Active marketing to graphite customers intensified over the quarter to customers in Australia, Europe, North America and Asia, with Valence Industries encouraged by very positive responses to the availability and high quality of its Uley Graphite. The initial sales by Valence Industries have been for a range of large flake graphite products with purity levels above 95%. The current customer sales were made in a range of volumes and for a range of prices that reflect immediate commercial applications and are being fulfilled via progressive customer shipments. Delivery is structured to allow the customer to direct Valence Industries on the global facilities to which these flake graphite products are to be supplied and the Company is awaiting those directions. The initial graphite shipments

are also being used in the programs for advanced testing and qualification ahead of long-term sales agreements.

Process Plant recommissioning

Valence Industries has continued the re-commissioning and upgrading of its existing Uley Graphite mining, processing and manufacturing facilities near Port Lincoln in South Australia.

The refurbishment and upgrade of existing plant on the land owned by Valence Industries is nearing completion. The primary (external) processing plant is used to screen, wash and grind the raw run of mine material and produce a feed product for second stage processing. The secondary (internal) plant processes material from the primary processing plant to manufacture and package Valence's graphite products.

In combination with the advances in the engineering and construction for Phase I Valence has made significant advances in the program of recruitment to match the ramp up of operations. The program to build and maintain a strong local and regional workforce has met with a very positive response. The company now has its senior site leadership team in place for the Uley Graphite operations and continues to recruit for operational personnel to match production readiness. It is anticipated that this recruitment program will also form a significant part of the Phase II expansion for the company with increasing numbers of personnel for both mining and operations through 2014 and 2015.

Phase I – Secondary Processing Plant

Valence will recommence production using the secondary (internal) processing circuit to process the Fines Stockpile (800 tonnes @ circa 50% average grade for 400 tonnes of contained graphite) into a range of graphite products.

The key components of the secondary processing circuit have been upgraded and tested, including:

- Primary Screening Units
- Flotation & Collection Tanks
- Main Slurry Tank
- Fluid Bed Gas-Fired Dryer
- Travelators
- Screening
- Dust Collection

The only major outstanding element of the secondary circuit is the new Bagging System, which has been assessed off-site and will arrive at site for installation shortly, and installation and upgrades of final agitation, plumbing and fluid transfer systems to fully integrate the key components.

The Company holds Mining Licences and associated regulatory approvals. With the close proximity of the Phase II mining and process expansion to the Phase I processing operations, the Company has been working closely with regional and State regulators to obtain regulatory approvals that incorporate both Phase I and the Phase II expansion.

The approvals process is at an advanced stage with application submitted for the transition of the operations to a PEPR. The Company expects to obtain final regulatory approvals incorporating the upgraded plant and expanded mining operations in the September Quarter of 2014, after which fines production will immediately commence. Existing production continues to be screened, bagged and sent to customers from Valence's specialist offsite testing facilities.

Phase I – Primary Processing Plant

The primary processing circuit is being upgraded with key elements including for the pre-screening of run of mine ore, washing and crushing prior to transfer slurry to the secondary processing circuit.

The Company is in the process of replacing the existing rod mill with a new ball mill, which has been commissioned specifically for the Uley Graphite operations. Delivery and installation of the new ball mill is scheduled for August 2014.

The other components of the primary processing circuit (screens, separators and conveyors) are under construction, together with the minor related structural engineering works, in line with the recommissioning timetable.

The completion of the primary processing circuit will occur while the secondary plant is processing the fines stockpile. Processing will then ramp up progressively as treatment commences on the main stockpile (74,000 tonnes @ 10% average grade) and continues to sustain that Phase I plant for more than 9 months of operations, after which the new run of mine ore is expected to be available for processing.

Customer demand for the company's graphite products continues to exceed expectations, and the company expects to conclude direct supply agreements in line with commencement of scaled-up production.

Phase II – Expansion – Bankable Feasibility Study

The Bankable Feasibility Study (BFS) for the proposed Phase II Plant and Open Pit expansion at Uley is progressing well. The design for the Phase II expansion includes new graphite manufacturing facilities to significantly increase annual graphite production capacity by up to another 60,000 tonnes of graphite per annum. Valence is planning for the BFS to be finalised in August.

As part of the mining portion of the BFS process, a diamond-drilling program has commenced across the existing JORC 2012 Indicated & Inferred Mineral Resource area. The drilling program is designed to provide further definition of the Mineral Resource body for preparation of an Ore Reserve estimate, pit optimisation and design and for production feed-material handling programs. It is anticipated that the Company will make further announcements relating to the current drilling program as the results are analysed.

Corporate

Valence had \$6.85 million cash on hand as at 30 June 2014.

A summary of movements and balances of equity securities between April 1 2014 and this report of 31 July 2014 are listed below:

	Ordinary Shares	Listed Options	Unlisted options	Performance rights
On issue at start of quarter	166,933,005	70,073,131	6,500,000	2,062,500
Exercise of listed options	1,482,345	(1,482,345)	-	-
Lapse of securities	-	-	(950,000)	(687,500)
On issue at the date of this report	168,415,350	68,590,786	5,550,000	1,375,000

The Company issued 1,232,345 ordinary shares during the Quarter at a price of 25 cents per share upon the exercise of listed options. Subsequent to the end of the quarter, a further 250,000 shares were issued upon the exercise of listed options. Further, 950,000 unlisted options and 687,500 unlisted performance rights lapsed where corresponding conditions were not met due to delayed start-up of plant refurbishment.

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")

30 June 2014

Consolidated statement of cash flows

		Current quarter	Year to date (6 months)
		\$A'000	\$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(104)	(146)
	(b) development	(147)	(197)
	(c) production	(108)	(181)
	(d) administration	(425)	(872)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	72	72
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	44	44
		(668)	(1,280)
Net Operating Cash Flows			
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(934)	(1,462)
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)	-	-
		(934)	(1,462)
Net investing cash flows			
1.13	Total operating and investing cash flows (carried forward)	(1,602)	(2,742)

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,602)	(2,742)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	308	3,713
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)
	Net financing cash flows	308	3,014
	Net increase (decrease) in cash held	(1,294)	272
1.20	Cash at beginning of quarter/year to date	8,147	6,581
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	6,853	6,853

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	142
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

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	309	147
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	6,544	8,000
Total: cash at end of quarter (item 1.22)	6,853	8,147

Changes in interests in mining tenements and petroleum tenements

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

Issued and quoted securities at end of current quarter

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

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	168,165,350	135,348,708		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,232,345	1,232,345	25.00 cents	25.00 cents
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)	68,840,786	52,590,786	Exercise price 25.00 cents	Expiry date 31 July 16
		3,500,000 (vested)	-	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				
7.9	Exercised during quarter	1,232,345	1,232,345	25.00 cents	31 July 16
7.10	Expired during quarter	950,000	-	25.00 cents	31 July 16
7.7	Performance Rights (description and conversion factor)			Exercise price	Expiry date (KPI based)
		687,500	-	Nil	31 October 14
		687,500	-	Nil	30 June 2015
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter	687,500	-	Nil	31 May 14
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: 31 July 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.