# Valence Industries Limited

**(previously Strategic Graphite Limited)**

**ABN 41 008 101 979**

# 2014
# ANNUAL FINANCIAL REPORT

for the year ended
30 June 2014

# Contents



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. Its offices are:

**Principal Place of Business**
Valence Industries Ltd
Ground Floor, 60 Hindmarsh Square
Adelaide SA 5000

**Registered Office**
Valence Industries Ltd
Level 1, 67 Greenhill Road
Wayville SA 5034

**Website**
www.valenceindustries.com

***Competent Persons Statement***

*The information in this announcement that relates to Mineral Resources is based on, and fairly represents, the Mineral Resources and information and supporting documentation extracted from the report, which was prepared by a competent person in accordance with the JORC Code (2012 edition) and released to ASX by the Company on 18 November 2013 and subsequent announcement on 1 September 2014. The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcements. All material assumptions and technical parameters underpinning the Mineral Resource estimates in previous releases continue to apply and have not materially changed.*

# Corporate Directory

**Directors:**

Graham Spurling

*Non-Executive Chairman*

Christopher Darby

*Managing Director & CEO*

Glenister Lamont

*Non-Executive Director*

Ian Schache

*Non-Executive Director*

**CFO/Company Secretary:**

Jaroslaw (Jarek) Kopias

**Principal Business Office:**

Ground Floor, 60 Hindmarsh Square

Adelaide, SA 5000

Telephone: + 61 8 8418 8564

**Registered Address:**

Level 1, 67 Greenhill Road

Wayville, SA 5034

**Auditors:**

Grant Thornton Audit Pty Ltd

Level 1, 67 Greenhill Rd

Wayville SA 5034

**Solicitors:**

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

# Directors' Report

The Directors of Valence have pleasure in submitting their report on the Company and its subsidiaries, for the year ended 30 June 2014.

The Company changed its name from Strategic Graphite Limited to Valence Industries Limited on 25 November 2013.

Valence Industries Limited was admitted to the official list of the ASX on 6 January 2014 and VXL and VXLO securities commenced trading at that time.

## 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 Non-Executive Director) (appointed 16 September 2013)
Christopher Darby (Managing Director and Chief Executive Officer) (appointed 16 September 2013)
Glenister Lamont (Non-Executive Director)
Ian Schache (Non-Executive Director) (appointed 26 September 2013)
Mark Muzzin (Executive Director) (resigned 16 September 2013)
Peter Armitage (Non-Executive Director) (resigned 16 September 2013)
Anthony Rechner (Non-Executive Director) (resigned 16 September 2013)

**Graham Spurling, AM, ED FTSE BTech MechEng MAutoEng**
**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*
150,000 Ordinary Shares held by an entity in which Mr Spurling has a beneficial interest.

*INTEREST IN OPTIONS*
150,000 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Spurling has a beneficial interest.

350,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Spurling has a beneficial interest, escrowed to 6 January 2016 and vesting subject meeting a KPI condition.

**Christopher Darby, BA LLB GAICD GDM(AGSM)**
**Managing Director & CEO (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.

*DIRECTORS' REPORT (CONTINUED)*

Mr Darby has current global graphite mining, processing and markets experience as an Executive Director and 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***
687,500 Ordinary Shares held by an entity in which Mr Darby has a beneficial interest.

***INTEREST IN OPTIONS / PERFORMANCE RIGHTS***
1,500,000 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. 500,000 of the unlisted options have vested upon meeting of a KPI condition and 1,000,000 unlisted options are subject to meeting KPI conditions.

1,375,000 Unlisted Performance Rights, held by an entity in which Mr Darby has a beneficial interest, escrowed to 6 January 2016 and vesting subject meeting 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***
75,000 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***
50,000 Listed Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Lamont has a beneficial interest.

350,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Lamont has a beneficial interest, escrowed to 6 January 2016 and vesting subject meeting a KPI condition.

**Ian Schache, B.Sc (Met), B.Econ Old**
**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***
200,000 Ordinary Shares held by an entity in which Mr Schache has a beneficial interest.

***INTEREST IN OPTIONS***
350,000 Unlisted Options exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Schache has a beneficial interest, escrowed to 6 January 2016 and vesting subject meeting a KPI condition.

**Mark Muzzin, B.A.**
**Executive Director (resigned 16 September 2013)**

***EXPERIENCE AND EXPERTISE***
Mr Muzzin has had over 20 years of commercial experience and holds a B.A. degree from Latrobe University, Melbourne. His career commenced in the mid-eighties for a London stock broking firm and he has consulted for two of the major banks in Australia in the share custodian area. He has been involved in multiple capital raising activities for resource companies in Australia and has consulted to various oil/gas and minerals companies. Mr Muzzin holds a number directorships in private companies and is a non-executive Director of ASX listed Ishine International Resources Limited. Mr Muzzin is a Member of the Petroleum Exploration Society of Australia.

***OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES***
Non-executive Director of Ishine International Resources Ltd (ASX:ISH from 1 February 2010).

***OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS***
Managing Director of Strategic Energy Resources Limited (ASX:SER from 4 December 2008 to 17 August 2014).

***INTEREST IN SHARES***
3,422,408 Ordinary Shares held directly and escrowed to 6 January 2016.

***INTEREST IN OPTIONS***
1,000,000 Unlisted Options vested and exercisable at $0.25 expiring on 31 July 2016, held directly and escrowed to 6 January 2016.

**Peter Armitage, FCA FAICD.**
**Executive Director (resigned 16 September 2013)**

***EXPERIENCE AND EXPERTISE***
Peter Armitage began his professional career over 40 years ago with an international accounting firm, specialising in start-ups and work-outs. After qualification he was invited into partnership of a national firm that he maintained until he set up his own practice in 1978, of which he remains principal. Since the early 1980's he has been a Director of a number of listed exploration companies in both Australia and New Zealand concentrating on fiscal aspects of project modelling and procurement of capital. Recently he has been responsible for a number of successful IPOs supervising Due Diligence and Corporate Governance matters as well as attending to all compliance matters. Mr Armitage has also been involved in various consulting assignments in Peoples Republic of China, Canada, USA, Hong Kong, and UK for Fortune 500 companies.

***OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES***
Non-executive Director of Strategic Energy Resources Limited (ASX:SER from 28 February 2011).

***OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS***
Non-executive Director of Oroya Mining Limited (ASX:ORO from 17 December 2010 to 5 July 2012).

***INTEREST IN SHARES***
285,048 Ordinary Shares held directly and escrowed to 6 January 2016.

*DIRECTORS' REPORT (CONTINUED)*

***INTEREST IN OPTIONS***

1,000,000 Unlisted Options vested and exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Armitage has an interest and escrowed to 6 January 2016.

**Anthony Rechner, BSc**
**Executive Director (resigned 16 September 2013)**

***EXPERIENCE AND EXPERTISE***

Anthony Rechner has over forty years' experience in Australia and overseas working in mineral and petroleum exploration and holds a Bachelor of Science degree in Geology and Physics from the University of Adelaide. Mr Rechner's role as Chairman and/or Managing Director of Windsor Resources NL, Brunswick NL and Geographe Resources Ltd resulted in these companies evolving from small explorers to major gold producers at Mount Percy, Galtee More and Chalice respectively. Mr Rechner also played a key role in the discovery and ongoing development of two mineral sands mines in Western Australia for Falcon Minerals Ltd. Previously a director of SER from 1991 to 2007 Mr Rechner was responsible for the acquisition of the Uley Graphite mine and the Spencer project.

***OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES***

Non-executive Director of Strategic Energy Resources Limited (ASX:SER from 15 February 2013).

***OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS***

Nil.

***INTEREST IN SHARES***

6,960,141 Ordinary Shares held directly and by an entity in which Mr Rechner has an interest and escrowed to 6 January 2016.

***INTEREST IN OPTIONS***

1,000,000 Unlisted Options vested and exercisable at $0.25 expiring on 31 July 2016, held by an entity in which Mr Rechner has an interest and escrowed to 6 January 2016.

***COMPANY SECRETARY***

**Jaroslaw (Jarek) Kopias, BCom, CPA, AGIA, ACIS**
**Company Secretary / Chief Financial Officer (appointed 16 September 2013)**

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.

Melanie Leydin resigned as Company Secretary on 16 September 2013.

## PRINCIPAL ACTIVITIES

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

## OPERATING AND FINANCIAL REVIEW

### OPERATING REVIEW

**Mineral Resources, Geology & Mining**

Valence Industries' Uley Graphite project is recognised as a significant area of graphite mineralisation, and one of the largest coarse flake graphite deposits in the world. Graphite at Uley occurs in weathered schist and gneiss which is a result of high-grade metamorphism of the carbonaceous sediments of the lower Middleback Subgroup which are tightly folded along the hinge of a regional, north-plunging anticline. The deposit contains disseminated, high-grade flake graphite and the mineralisation is near surface, with the final manufactured graphite products recognised and purchased by many customers for its high quality. Valence Industries started the year with:

- an established JORC (2012) Indicated and Inferred Mineral Resource of 6.4Mt at an average grade of 7.1% graphitic Carbon; and
- run of mine stockpiles in the vicinity of 74,000 tonnes.

The programs at site over the year conducted by the Technical Delivery team at Valence Industries have transformed the Company's understanding of its existing resources at site.

*DIRECTORS' REPORT (CONTINUED)*

In August 2014 Valence Industries announced a significant extension to the volume of run of mine material located at site. Material previously understood to be overburden was assessed and reclassified as run of mine. This increased the total run of mine volumes to a level which represents up to 12 months of production in the Phase I Plant before that plant would require new material from the proposed Uley Pit 2.

In August 2014 the Company was also able to release the results of the reassessment of the geophysics programs and associated geological data available to Valence Industries from the significant historical exploration and operations records. The geophysics reassessment informed the in-fill drilling program designed over the proposed Uley Pit 2 and identified a potential sub-surface graphite mountain range to be targeted by the Company.

In August 2014 Valence Industries also concluded the in-fill drilling program over the area of the established JORC (2012) Mineral Resource and started to receive the first assay results from that program. While the in-fill drilling program was delayed by inclement weather and the assays were received slowly from the laboratories for a range of reasons the outcomes of the drilling campaign have been unique and significant.

The assay results from the drilling program have allowed Valence Industries to:

- increase its understanding of the graphite mineralisation contained in the area of known mineralisation that informed the established JORC (2012) Mineral Resource confirming the nature of the host material and the ability to pursue an open-pit free dig mining program;
- identify significantly higher grades and graphite intersections across the area of the established JORC (2012) Mineral Resource with the potential to significantly increase production capacity and production quality from that known material;
- discover a new area of graphite mineralisation which is being assessed at the time of writing this Annual Financial Report.

With the materiality of these discoveries in mind Valence Industries is assessing each of these elements in the context of the feasibility study process.

**Health, Safety & Environment**

Valence Industries believes that responsible health, safety and environmental management and performance is integral to an efficient and successful company. Best outcomes will be achieved through responsible leadership and by the use of reliable systems that provide timely and accurate information, in a transparent manner, to support effective decision making.

Consistent with the Company's commitment to meet the highest environmental standards Valence Industries, in the period since listing on the ASX, has pursued a detailed and extensive regulatory engagement program. While Valence Industries held the required authorities to conduct its operations the decision was made to bring the Company's regulatory approvals and environmental programs up to current standards in anticipation of the expanded operations in Phase II and the value placed on such standard by our customers. Accordingly the Company has engaged in the current approval process for the application of a PEPR to its operations.

**Phase I: Production & Commercialisation Program**

<u>Phase I – Graphite Manufacturing Plant</u>

In Phase I this year Valence Industries has focused on a program to deliver immediate graphite production by bringing its existing Uley Graphite manufacturing and processing plant off care and maintenance.

That recommissioning program has involved the redesign, refurbishment and staged ramp-up of the established manufacturing and processing plant (**Phase I Plant**).

The Phase I Plant has a projected capacity to produce 14,000 tonnes of flake graphite concentrate per year. Production is scheduled to commence in the second half of this year and is anticipated to build the basis for the Company's revenue streams.

<u>Phase I – Established Infrastructure</u>

The existing plant is built on land owned by Valence Industries and is located on the Company's established Mining Licences. This alone is a significant advantage for the Company.

In addition to the land and tenements held by the Company the Phase I Plant is supported by a backbone of fundamental infrastructure established at or near the Uley Graphite site. This includes existing electricity, water, haul road, maintenance workshops, administration buildings, tailings arenas and nearby port facilities. With this significant infrastructure in place the time and the money which would otherwise be needed to establish those base requirements does not need to be allocated by Valence Industries.

<u>Phase I – Commercialisation & Sales</u>

The program to deliver near term commercialisation and sales of the Company's range of flake graphite products from the Phase I facilities underwent intensive development in the first six months of operations.

*DIRECTORS' REPORT (CONTINUED)*

In April 2014 Valence Industries achieved the first sales agreement for flake graphite from Australia in more than 20 years.

In August 2014 the Company signed and announced multiple Memoranda of Understanding (MoUs) with customers in the Asia Pacific and Europe. Those MoUs committed Valence Industries to the delivery of 29,000+ tonnes of flake graphite concentrate over two or more years. Those customer relationships were not only across diverse markets they were for diverse industry applications ranging from refractories and foundries through to battery feed grade and other specialist applications.

The program of customer engagement has verified the Company's understanding of the level of demand for Valence Industries' flake graphite product lines. This level of demand is significant and also provides support for the proposed increases to production the subject of the Phase II feasibility study process.

**Phase II – Expanded Production & Commercialisation**
In conjunction with the Phase I program to restart operations at the Uley Graphite facilities Valence Industries has been pursuing the feasibility study process for the proposed Phase II expansion of production.

The feasibility study process has built on the results and recommendations of the 2013 Scoping Study. This process has involved pursuit of relevant regulatory approvals, in-fill drilling across the existing JORC (2012) Mineral Resource, design and engineering of the new automated production facility and advanced assessment of the market and customer growth.

The Phase II plant is expected to achieve improved production capacity, quality and operating costs when compared to the Phase I Plant and correspondingly generate sound returns for Valence Industries.

**Phase III – High Purity Program**
Valence Industries has initiated early assessment of the potential to deliver higher-value flake graphite products to its customers. This initiative is known as the Phase III High Purity Program. This program involves not only the delivery of flake graphite with higher purity levels which demand higher prices in the global market but also involves a range of specialist applications and proprietary formulations of Valence Industries flake graphite that do not necessarily include further purification.

The program to fully assess those Phase III opportunities is being conducted by Valence Industries Commercialisation & Sales division and will continue during 2014. The timetable for formally completing that assessment and releasing the results of any studies will be announced as the Company advances its thinking and commitment to these initiatives.

**Phase IV – Graphene Research & Development**
Valence Industries signed a Joint Research, Development & Commercialisation Agreement with the University of Adelaide for the development and commercialisation of all new graphene research and for the development of a new Australian Graphene Research Centre to be based in South Australia. The Company has allocated $800,000 over 3.5 years to this program.

This graphene research program is an initiative that has grown from pioneering work by Professor Dusan Losic and his team at the School of Engineering in the University of Adelaide. Professor Losic will continue to lead and help grow the research program as Valence Industries pursues the commercialisation of products from that research.

The graphene research driven and owned by Valence Industries will permit the development of new and significant applications for graphene products and sales. Those applications range from heavy industrial uses through to new technology and medical uses.

**FINANCIAL REVIEW**
Valence Industries is the owner and operator of the only graphite mining and manufacturing facilities in Australia located at Uley in South Australia near the major regional centre of Port Lincoln. In April 2014 and just four months after listing on the ASX, Valence Industries achieved the first sales of graphite by an Australian company in more than 20 years.

The Company is bringing its existing plant and substantial infrastructure into production in Phase I with a focus on global markets across multiple graphite product ranges. Graphite production will commence in the third Quarter of 2014, with plans for expanded mining and graphite manufacturing in Phase II increasing through 2015.

The company holds two existing Mining Leases and two associated Retention Leases, along with an extensive Exploration Licence, for the conduct of its operations.

*DIRECTORS' REPORT (CONTINUED)*

The Company produces and sells its graphite products from its Uley Graphite facilities in regional South Australia for delivery to diversified markets for graphite in the Asia Pacific, Europe and North America. As a vertically integrated manufacturer of specialist graphite product ranges Valence Industries' branded products are designed to meet current and future customer demand.

The Company is also pursuing research into advanced fields and applications for graphite. That program includes the relationship with the University of Adelaide for the establishment of a dedicated Graphene Research Centre in Adelaide.
Valence Industries commenced the process to list on the Australian Securities Exchange (ASX) in the second half of 2013 and was admitted to the official list of the ASX 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. Subsequently, 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.

Prior to listing, Valence raised $1,000,000 in capital to enable it to undertake the activities required to list on the ASX.

The net loss of the Company, from the year ended 30 June 2014, was $2,961,929 (2013 $178,098) after providing for income tax – an increase of $2,783,831.

The increased loss was planned and anticipated by Valence Industries this year. The key contributor to the increased loss for the year was an overall increase in activities and commencement of works in readiness for production. The increased level of activity followed the Company's successful listing on ASX on 6 January 2014.

## 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 250,000 ordinary shares upon the exercise of listed options and allotted the shares on 25 July 2014.

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 1 plant refurbishment and commencement of production at the Company's Uley facilities.

The Company is further assessing an expanded Phase 2 facility and progressing the associated feasibility study. The design for the Phase 2 expansion includes new graphite manufacturing facilities to significantly increase annual graphite production capacity by up to another 60,000 tonnes of graphite per annum.

*DIRECTORS' REPORT (CONTINUED)*

## 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 | 8 | 8 | 2 | 2 |
| CS Darby | 8 | 8 | - | - |
| G Lamont | 9 | 9 | 2 | 2 |
| IS Schache | 8 | 8 | 2 | 2 |
| M Muzzin[1] | 1 | 1 | - | - |
| P Armitage[1] | 1 | 1 | - | - |
| A Rechner[1] | 1 | 1 | - | - |

[1] Resigned 16 September 2013

At this time there are no separate Board committees, other that 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 | 5,550,000 |
| **Total unlisted options** | | | **5,550,000** |
| | | | |
| 24 December 2013 and 4 February 2014 | 31 July 2016 | $0.25 | 52,340,786 |
| 24 December 2013 | 31 July 2016 | $0.25 | 16,250,000[1] |
| **Total listed options** | | | **68,590,786** |

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

The Company issued 36,798,678 listed options and 6,500,000 unlisted options (950,000 unlisted options have lapsed since listing) upon meeting the conditions for admission to ASX. The options were issued on 24 December 2013. Following the placement of the shortfall under the rights issue on 4 February 2014, Valence issued a further 17,024,453 listed options (1,482,345 listed options have been exercised since issue and the date of this report).

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 1,232,345 ordinary shares were issued as a result of the exercise of listed options.

## *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 end of 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. There is currently no relationship of board policy for KMP remuneration and the entity's performance for the last 5 years as the Company is newly listed.

#### *Voting and comments made at the company's 2013 Annual General Meeting*

Valence Industries did not put the remuneration report for the 2013 financial year to a shareholder vote as this is only required for listed entities.

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

*REMUNERATION REPORT (AUDITED) (CONTINUED)*

## 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**

| 2014 | Short term benefits | | Post-employment benefits | Share-based payments | | % of remuneration that is equity based |
|---|---|---|---|---|---|---|
| | Salary and fees<br>$ | Contract Payments[5]<br>$ | Super-annuation<br>$ | Options and Performance Rights[1]<br>$ | Total<br>$ | |
| **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 Leydin[4] | - | 3,000 | - | - | 3,000 | 0% |
| **Total** | **85,993** | **590,321** | **63,672** | **657,707** | **1,397,693** | **47%** |

| 2013 | Short term benefits | | Post-employment benefits | Share-based payments | | % of remuneration that is equity based |
|---|---|---|---|---|---|---|
| | Salary and fees<br>$ | Contract Payments[5]<br>$ | Super-annuation<br>$ | Options and Performance Rights[1]<br>$ | Total<br>$ | |
| **Non-Executive Directors** | | | | | | |
| G Lamont | - | 24,175 | - | - | 24,175 | 0% |
| A Armitage | - | 16,116 | - | - | 16,116 | 0% |
| A Rechner | - | 16,116 | - | - | 16,116 | 0% |
| **Executive Directors** | | | | | | |
| C Darby | - | - | - | - | - | 0% |
| M Muzzin | - | 16,116 | - | - | 16,116 | 0% |
| **Other Key Management Personnel** | | | | | | |
| M Leydin | - | - | - | - | - | 0% |
| **Total** | **-** | **72,523** | **-** | **-** | **72,523** | 0% |

(1) Performance rights and options issued to Directors 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.

Messrs Spurling, Darby and Kopias were appointed as officers of the Company and KMP on 16 September 2013. Messrs Muzzin, Armitage and Rechner and Ms Leydin resigned as officers and KMP on the same date. Mr Schache was appointed as a Director of the Company and KMP on 26 September 2013. Ms Lloyd was appointed as KMP on 28 January 2014.

All current Directors have been issued with performance based options and the Managing Director & CEO has been issued with performance based rights. The KPI's associated with the options and rights are detailed in section D below.

*REMUNERATION REPORT (AUDITED) (CONTINUED)*

**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 $231,500 (2013: $Nil). The total amount of fees due to Whitington Darby as at 30 June 2014 was $Nil (2013: $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. Valence Industries has incurred $133,528 (2013: $Nil) of legal fees during the financial period - $114,647 related to the provision of professional advice associated with the listing of the Company on ASX $18,881 related to the provision of other legal advice. The total amount of fees due to Watsons Lawyers as at 30 June 2014 was $1,700 (2013: $Nil).

**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 $9,000 (2013: $Nil) of fees during the financial period. The total amount of fees due to Coronet Consultants as at 30 June 2014 was $1,600 (2013: $Nil).

**Jarek Kopias**

Kopias Consulting, a business of which Jarek Kopias is a Director was paid consulting fees during the period totalling $173,713 (2013: $Nil). 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 2014 was $22,300 (2013: $Nil).

**Karen Lloyd**

Jorvik Resources Pty Ltd, a business of which Karen Lloyd is a Director was paid consulting fees during the period totalling $157,526 (2013: $Nil). Services provided by this entity relate to technical services provided by Ms Lloyd. The total amount of fees due to Jorvik Resources as at 30 June 2014 was $44,715 (2013: $Nil).

**Messrs Muzzin, Armitage and Rechner**

Past Directors were issued 117,454 shares each in satisfaction of Directors fees owing to each Director. The issue of shares was approved by shareholders at the 2013 AGM. There were no fees due to past Directors as at 30 June 2014 (2013: $14,786 to each Director).

## 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<br>MD & CEO | $275,600 | per annum contract | Unspecified | Twelve months | Twelve months |
| J Kopias<br>CFO & Co Sec | Variable | hourly rate contract | Unspecified | One month | None |
| K Lloyd<br>GM Tech Delivery | Variable | hourly rate contract | Unspecified | None | None |

*REMUNERATION REPORT (AUDITED) (CONTINUED)*

**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 2013/14 are set out below:

| Granted | | | Terms and conditions of each grant | | | | |
|---|---|---|---|---|---|---|---|
| 2014 | Number granted | Grant Date | Fair value at grant date per option | Fair value at grant date full value | Exercise price $ | First exercise date[1,2,3] | Last exercise date |
| G Spurling | 150,000 | 24/12/2013 | $0.035 | 5,190 | $0.25 | 2 Delivery | 31/07/2016 |
| G Spurling | 350,000 | 24/12/2013 | $0.035 | 12,109 | $0.25 | 4 Commission | 31/07/2016 |
| C Darby | 500,000 | 24/12/2013 | $0.035 | 17,299 | $0.25 | 1 Listing | 31/07/2016 |
| C Darby | 500,000 | 24/12/2013 | $0.035 | 17,299 | $0.25 | 2 Delivery | 31/07/2016 |
| C Darby | 500,000 | 24/12/2013 | $0.035 | 17,299 | $0.25 | 3 Financing | 31/07/2016 |
| C Darby | 500,000 | 24/12/2013 | $0.035 | 17,299 | $0.25 | 4 Commission | 31/07/2016 |
| G Lamont | 150,000 | 24/12/2013 | $0.035 | 5,190 | $0.25 | 2 Delivery | 31/07/2016 |
| G Lamont | 350,000 | 24/12/2013 | $0.035 | 12,109 | $0.25 | 4 Commission | 31/07/2016 |
| I Schache | 150,000 | 24/12/2013 | $0.035 | 5,190 | $0.25 | 2 Delivery | 31/07/2016 |
| I Schache | 350,000 | 24/12/2013 | $0.035 | 12,109 | $0.25 | 4 Commission | 31/07/2016 |
| **Subtotal** | **3,500,000** | **KPI based options** | | | | | |
| M Muzzin | 1,000,000 | 24/12/2013 | $0.035 | 34,598 | $0.25 | n/a | 31/07/2016 |
| A Armitage | 1,000,000 | 24/12/2013 | $0.035 | 34,598 | $0.25 | n/a | 31/07/2016 |
| A Rechner | 1,000,000 | 24/12/2013 | $0.035 | 34,598 | $0.25 | n/a | 31/07/2016 |
| **Subtotal** | **3,000,000** | **Vested options – no KPI based conditions** | | | | | |
| **TOTAL** | **6,500,000** | | | | | | |

[1] Meeting criteria of the KPI type listed determines vesting of unlisted options.
[2] KPI 1 has vested during the financial year.
[3] KPI 2 has lapsed during the financial year.

KPI related unlisted options were granted to the Directors during the year and approved at the 2013 AGM. The KPI conditions related to these options are listed below:

| KPI | Maximum number of KMP Options vested upon achieving KPI | | | |
|---|---|---|---|---|
| | G Spurling | C Darby | G Lamont | I Schache |
| *1. Listing* | - | 500,000 | - | - |
| *2. 1,000 tonne delivery* | 150,000 | 500,000 | 150,000 | 150,000 |
| *3. Financing* | - | 500,000 | - | - |
| *4. Commissioning* | 350,000 | 500,000 | 350,000 | 350,000 |
| **TOTAL** | **500,000** | **2,000,000** | **500,000** | **500,000** |
| **GRAND TOTAL** | | | | **3,500,000** |

**Performance Rights**
All performance rights refer to a right to convert one right to one ordinary share in the Company, under the terms of the agreements.

Details of performance rights convertible to ordinary shares in the Company that were granted as remuneration to each KMP during 2013/14 are set out below:

| Granted | | | | | | |
|---|---|---|---|---|---|---|
| 2014 | Number granted | Grant Date | Fair value at grant date per right | Fair value at grant date full value | First vesting date[1] | Last vesting date |
| C Darby | 687,500 | 24/12/2013 | $0.20 | 137,500 | 1 Listing | 31/07/2016 |
| C Darby | 687,500 | 24/12/2013 | $0.20 | 137,500 | 2 Delivery | 31/07/2016 |
| C Darby | 687,500 | 24/12/2013 | $0.20 | 137,500 | 3 Financing | 31/07/2016 |
| C Darby | 687,500 | 24/12/2013 | $0.20 | 137,500 | 4 Commission | 31/07/2016 |

[1] Meeting criteria of the KPI type listed determines vesting of rights. 687,500 rights have been exercised as the vesting condition was met during the year and 687,500 rights lapsed as the KPI condition was not met during the year.

*REMUNERATION REPORT (AUDITED) (CONTINUED)*

The KPI related performance rights were granted to the Managing Director & CEO during the year as approved at the 2013 AGM. The KPI conditions related to these rights are listed above.

**KPI Conditions**
The KPI conditions related to each unlisted option and performance right are listed below:

*KPI 1 - Admission to Official List of ASX*

*KPI 2 - Delivery of first 1,000 tonnes of graphite from the Uley Project*

*KPI 3 - Execution of definitive transaction documents for finance facility for the full scale process plant for the Uley Project*

*KPI 4 - On completion of three months of scheduled operations following commissioning of the new processing plant*

***Share holdings of key management personnel***

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

**2014**

| **KMP** | **Held at 30 June 2013**[1] | **Acquired during year**[2] | **Disposed during year**[4] | **Options / Rights Exercised** | **Held at 30 June 2014** |
|---|---|---|---|---|---|
| G Spurling | - | 150,000 | - | - | 150,000 |
| C Darby | - | - | - | 687,500 | 687,500 |
| G Lamont | 25,000 | 50,000 | - | - | 75,000 |
| I Schache | - | 100,000 | - | 100,000 | 200,000 |
| J Kopias | - | 62,500 | - | - | 62,500 |
| K Lloyd | - | 162,031 | - | - | 162,031 |
| M Muzzin[3] | 3,187,500 | 117,454 | (3,304,954) | - | - |
| P Armitage[3] | 50,140 | 117,454 | (167,594) | - | - |
| A Rechner[3] | 6,725,233 | 117,454 | (6,842,687) | - | - |
| **Total** | 9,987,873 | 876,893 | (10,315,235) | 787,500 | 1,337,031 |

[1] Opening balance displayed on a post consolidation basis – the Company undertook a 1 for 2 consolidation as approved at the 2013 AGM.
[2] Movement represents participation in the Company's seed placement, rights issue and on-market purchases.
[3] Acquisition represents issue of shares in satisfaction of outstanding Directors' fee as approved at the 2013 AGM.
[4] Movement represents director resignation.

*REMUNERATION REPORT (AUDITED) (CONTINUED)*

### *Option holdings of key management personnel*

The number of options over ordinary shares in Valence Industries Limited held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities as at balance date, is as follows:

**Unlisted options**

| Directors 2014 | Held at 30 June 2013 | Issued during year | Lapsed during year | Exercised | Held at 30 June 2014 | Vested and exercisable at 30 June 2014 |
|---|---|---|---|---|---|---|
| G Spurling[2] | - | 500,000 | (150,000) | - | 350,000 | - |
| C Darby[1&2] | - | 2,000,000 | (500,000) | - | 1,500,000 | 500,000 |
| G Lamont[2] | - | 500,000 | (150,000) | - | 350,000 | - |
| I Schache[2] | - | 500,000 | (150,000) | - | 350,000 | - |
| M Muzzin[3] | - | 1,000,000 | (1,000,000) | - | - | - |
| A Armitage[3] | - | 1,000,000 | (1,000,000) | - | - | - |
| A Rechner[3] | - | 1,000,000 | (1,000,000) | - | - | - |
| **Total** | - | 6,500,000 | (3,950,000) | - | 2,550,000 | 500,000 |

[1] Options issued as approved at the 2013 AGM.
[2] Options lapse where the corresponding KPI condition was not met.
[3] Option lapse represents resignation as Director on 189 September 2014.

**Listed options**

| Directors 2014 | Held at 30 June 2013 | Issued during year[1] | Lapsed during year | Exercised | Held at 30 June 2014 | Vested and exercisable at 30 June 2014 |
|---|---|---|---|---|---|---|
| G Spurling | - | 150,000 | - | - | 150,000 | 150,000 |
| G Lamont | - | 50,000 | - | - | 50,000 | 50,000 |
| I Schache | - | 100,000 | - | (100,000) | - | - |
| **Total** | - | 300,000 | - | (100,000) | 200,000 | 200,000 |

[1] Issued upon participation in the Company's rights issue during the year.

*REMUNERATION REPORT (AUDITED) (CONTINUED)*

***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 specified Director and specified executive, including their personally-related entities as at balance date, is as follows:

| Directors 2014 | Held at 30 June 2013 | Issued during year[1] | Lapsed during year | Exercised | Held at 30 June 2014 | Vested at 30 June 2014 |
|---|---|---|---|---|---|---|
| C Darby | - | 2,750,000 | (687,500) | (687,500) | 1,375,000 | - |
| **Total** | - | 2,750,000 | (687,500) | (687,500) | 1,375,000 | - |

[1] Movement represents the issue of 2,750,000 performance rights to Mr Darby and the lapse of 687,500 performance rights where the corresponding KPI condition was not met.

*END OF AUDITED REMUNERATION REPORT*

*DIRECTORS' REPORT (CONTINUED)*

## 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 reporting period, 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 reporting period 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 15 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 15 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.

Signed in accordance with a resolution of the Directors.

Christopher Darby
Managing Director & CEO

5 September 2014

Grant Thornton

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**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE DIRECTORS OF VALANCE 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 2014, 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, 5 September 2014

# Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Valence Industries Ltd and its controlled entities ('the Group') have adopted a corporate governance framework and practices to ensure they meet the interests of shareholders.

The Group complies with the Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition ('the ASX Principles'). This statement incorporates the disclosures required by the ASX Principles under the headings of the eight core principles. All of these practices, unless otherwise stated, were in place for the full reporting period.

Information about the Company's corporate governance practices are set out below. All of these practices were put in place subsequent to the listing of the Company in January 2014.

## THE BOARD OF DIRECTORS

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any shareholding qualification.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the Company's activities will be determined within the limitations imposed by the Constitution and as circumstances demand.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and application of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board, subject to election by shareholders at the next Annual General Meeting. Under the Company's Constitution the tenure of a Director (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following their last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

The Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of other separate or special committees at this time other than the remuneration committee. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

## APPOINTMENTS TO OTHER BOARDS

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

## INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to Director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

## CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the Company. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies, from time to time, in light of changing circumstances and economic conditions. The Directors recognise that exploration is a business with inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

*CORPORATE GOVERNANCE STATEMENT (CONTINUED)*

## CODE OF CONDUCT AND TRADING POLICY

The Company has adopted a Code of Conduct its executives that promotes the highest standards of ethics and integrity in carrying out their duties to the Company. The Company has adopted a trading blackout period which requires that executives in possession of confidential information are prohibited from trading in the Company's securities until one day after the information has been released to the market.

## DIVERSITY POLICY

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The company is committed to diversity and recognises the benefits arising from employee and board diversity and the importance of benefiting from all available talent. This diversity policy acknowledges the importance of diversity, but the company has not developed measurable objectives for achieving diversity at this stage due to its size and extent of operations.

| **Gender diversity report** | **Total positions** | **Held by women** |
|---|---|---|
| Board | 4 | - |
| Senior management | 2 | 1 |
| Other employees | 1 | 2 |
| **Total** | **7** | **3** |

## RISK MANAGEMENT SYSTEMS

The identification and management of risk, including calculated risk-taking activity is viewed by management as an essential component in creating shareholder value.

Management, through the Managing Director & CEO, is responsible for developing, maintaining and improving the Company's risk management and internal control system. Management provides the Board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks. These risk management and internal control systems are in place to protect the financial statements of the entity from potential misstatement, and the Board is responsible for satisfying itself annually, or more frequently as required, that management has developed a sound system of risk management and internal control.

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified, and actively monitors, risks inherent in the industry in which it operates.

The Board also receives a written assurance from the Chief Executive Officer and Chief Financial Officer that, to the best of their knowledge and belief, the declaration provided to the Board in accordance with section 295A of the Corporations Act, is founded on a sound system of risk management and internal control, and that the system is operating effectively in relation to financial reporting risks.

The Board notes that due to its nature, internal control assurance from the Chief Executive Officer and Chief Financial Officer can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

## ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board has reviewed its practices in light of the ASX Corporate Governance Principles and Recommendations with 2010 Amendments 2nd Edition with a view to making amendments where applicable after considering the Company's size and available resources.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

*CORPORATE GOVERNANCE STATEMENT (CONTINUED)*

The following table sets out the Company's compliance with the ASX Corporate Governance Guidelines:

| **Checklist of Corporate Governance Principles and Recommendations** | | |
|---|---|---|
| **Principle 1 - Lay solid foundations for management and oversight** | | |
| 1.1 | Establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | ✓ |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | ✓ |
| 1.3 | Provide the information indicated in Guide to reporting on Principle 1. | ✓ |
| **Principle 2 - Structure the Board to add value** | | |
| 2.1 | A majority of the board should be independent directors. | ✗ |
| 2.2 | The chair should be an independent director. | ✓ |
| 2.3 | The roles of the chair and chief executive officer should not be exercised by the same individual. | ✓ |
| 2.4 | The board should establish a nomination committee. | ✗ |
| 2.5 | Disclose the process for evaluating the performance of the board, its committees and individual directors. | ✓ |
| 2.6 | Provide the information indicated in Guide to reporting on Principle 2. | ✓ |
| **Principle 3 - Promote ethical and responsible decision-making** | | |
| 3.1 | Establish a code of conduct and disclose the code or a summary of the code as to:<br>• the practices necessary to maintain confidence in the Company's integrity;<br>• the practice necessary to take into account their legal obligations and the reasonable expectations of stakeholders; and<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | ✓ |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | ✓ |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. | ✗ |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board. | ✓ |
| 3.5 | Provide the information indicated in Guide to reporting on Principle 3. | ✓ |
| **Principle 4 - Safeguard integrity in financial reporting** | | |
| 4.1 | The board should establish an audit committee. | ✓ |
| 4.2 | Structure the audit committee so that it:<br>• consists only of non-executive directors;<br>• consists of a majority of independent directors;<br>• is chaired by an independent chair, who is not the chair of the board; and<br>• has at least three members. | ✗ |
| 4.3 | The audit committee should have a formal charter. | ✓ |
| 4.4 | Provide the information indicated in Guide to reporting on Principle 4. | ✓ |
| **Principle 5 - Make timely and balanced disclosure** | | |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | ✓ |
| 5.2 | Provide the information indicated in Guide to reporting on Principle 5. | ✓ |
| **Principle 6 - Respect the rights of shareholders** | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of the policy. | ✓ |
| 6.2 | Provide the information indicated in Guide to reporting on Principle 6. | ✓ |
| **Principle 7 - Recognise and manage risk** | | |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | ✓ |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | ✓ |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | ✓ |
| 7.4 | Provide the information indicated in Guide to reporting on Principle 7. | ✓ |
| **Principle 8 - Remunerate fairly and responsibly** | | |
| 8.1 | The board should establish a remuneration committee. | ✗ |
| 8.2 | The remuneration committee should be structured. | ✗ |
| 8.3 | Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | ✓ |
| 8.4 | Provide the information indicated in Guide to reporting on Principle 8. | ✓ |

*CORPORATE GOVERNANCE STATEMENT (CONTINUED)*

Where the Group has not complied with the Corporate Governance Principles, comments are included below:

| **ASX Principle** | | **Reference / Comment** |
|---|---|---|
| **Principle 2 - Structure the Board to add value** | | |
| 2.1 | A majority of the Board should be independent Directors | Given the Company's present size and scope, it is currently not Company policy to have a majority of independent Directors. Persons have been selected as Directors to bring specific skills and industry experience to the Company. Two of the four Directors are independent. |
| 2.4 | The Board should establish a nomination committee | The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for, screening and appointing new Directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process. |
| **Principle 3 – Promote ethical and responsible decision-making** | | |
| 3.3 | The Company should disclose the measurable objectives for achieving gender diversity. | While the Company subscribes to the principles of gender diversity, it has not set measurable objectives for achieving gender diversity due to the company's current size and nature of its operations. The Company is committed to the engagement of the best people available to meet the requirements of the Company, the Board and its business, regardless of gender. |
| **Principle 4 - Safeguard integrity in financial reporting** | | |
| 4.2 | The Board should establish an audit committee | The Company does have an Audit Committee that consists of only non-executive Directors, has a majority of independent Directors and has three members. The Chair of that committee is not independent. |
| **Principle 8 - Remunerate fairly and responsibly** | | |
| 8.1 | The Board should establish a remuneration committee. | Given the current size of the Board, the Company does not have a remuneration committee. The Board as a whole reviews remuneration levels on an individual basis, the size of the Company making individual assessment more appropriate than formal remuneration policies. In doing so, the Board seeks to retain professional services as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary. |
| 8.2 | Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives. | The Board acknowledges the grant of options to Directors is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the grant of Director Options to be reasonable in the circumstances, given the necessity to attract and retain the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves. |

# Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2014

| | Notes | 2014<br>$ | 2013<br>$ |
|---|---|---|---|
| Sales revenue | | 30,815 | - |
| Interest income | | 103,053 | - |
| Other income | | 43,623 | - |
| Administration costs | | (714,816) | (91,883) |
| Employee benefits expense | 18(a) | (1,261,056) | (72,525) |
| Depreciation expense | 6 | (16,269) | (4,082) |
| Research expense | | (39,515) | - |
| IPO expenses not capitalised | | (427,505) | - |
| Other expenses | | (245,972) | - |
| Finance expenses | | (12,097) | (9,608) |
| Loss before tax | | (2,539,739) | (178,098) |
| Income Tax (expense) | 2 | (422,190) | - |
| **Loss for the year** | | (2,961,929) | (178,098) |
| Other Comprehensive income | | - | - |
| **Total Comprehensive loss for the period** | | (2,961,929) | (178,098) |
| Loss attributable to: | | | |
| Owners of the parent entity | | (2,961,929) | (178,098) |
| Total Comprehensive Loss attributable to: | | | |
| Owners of the parent entity | | (2,961,929) | (178,098) |
| Earnings Per Share from Continuing Operations<br>Basic Loss – cents per share | 3 | (3.78) | (0.31) |

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

## Statement of Financial Position
As at 30 June 2014

| | Notes | 2014 $ | 2013 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 6,853,383 | 5,029 |
| Trade and other receivables | 5 | 291,962 | - |
| **Total current assets** | | 7,145,345 | 5,029 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 1,874,982 | 3,428 |
| Exploration and evaluation expenditure | 7 | 356,763 | 192,129 |
| **Total non-current assets** | | 2,231,745 | 195,557 |
| **TOTAL ASSETS** | | 9,377,090 | 200,586 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8 | 672,887 | 82,524 |
| Employee provisions | 9 | 1,878 | - |
| Borrowings | 10 | 20,606 | 282,380 |
| **Total current liabilities** | | 695,371 | 364,904 |
| **Non Current Liabilities** | | | |
| Borrowings | 10 | 41,212 | - |
| **Total non-current liabilities** | | 41,212 | - |
| **TOTAL LIABILITIES** | | 736,583 | 364,904 |
| **NET ASSETS** | | 8,640,507 | (164,318) |
| **EQUITY** | | | |
| Issued capital | 11 | 13,898,624 | 3,228,050 |
| Reserves | 12 | 1,096,180 | - |
| Accumulated losses | | (6,354,297) | (3,392,368) |
| **TOTAL EQUITY** | | 8,640,507 | (164,318) |

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

# Statement of Changes in Equity

## For the year ended 30 June 2014

**2014**

| | Share capital<br>$ | Option / Rights reserve<br>$ | Retained earnings<br>$ | Total equity<br>$ |
|---|---|---|---|---|
| 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 reporting year | - | - | (2,961,929) | (2,961,929) |
| Total other comprehensive income for the reporting year | - | - | - | - |
| **Balance 30 June 2014** | **13,898,624** | **1,096,180** | **(6,354,297)** | **8,640,507** |

**2013**

| | Share capital<br>$ | Option reserve<br>$ | Retained earnings<br>$ | Total equity<br>$ |
|---|---|---|---|---|
| Balance at beginning of year | **3,228,050** | **-** | **(3,214,270)** | **13,780** |
| Transactions with owners | - | - | - | - |
| ***Comprehensive income:*** | | | | |
| Total profit or loss for the reporting year | - | - | (178,098) | (178,098) |
| Total other comprehensive income for the reporting year | - | - | - | - |
| **Balance 30 June 2013** | **3,228,050** | **-** | **(3,392,368)** | **(164,318)** |

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

# Statement of Cash Flows
For the year ended 30 June 2014

| | Notes | 2014 $ | 2013 $ |
|---|---|---|---|
| **Operating activities** | | | |
| Interest received | | 71,510 | - |
| Proceeds from sale of scrap metal | | 43,623 | - |
| Payments to suppliers and employees | | (1,553,918) | (264) |
| Interest payment | | (11,986) | - |
| Net cash used in operating activities | 13 | (1,450,771) | (264) |
| **Investing activities** | | | |
| Payments for plant and equipment | | (1,456,836) | - |
| Payments for exploration expenditure | | (136,788) | - |
| Net cash used in investing activities | | (1,593,624) | - |
| **Financing activities** | | | |
| Proceeds from issue of share capital | | 11,585,212 | - |
| Capital raising costs | | (1,410,083) | - |
| Drawdown of Loan | | 69,770 | - |
| Repayment of Loan | | (352,150) | - |
| Net cash from financing activities | | 9,892,749 | - |
| **Net change in cash and cash equivalents** | | 6,848,354 | (264) |
| Cash and cash equivalents, beginning of year | | 5,029 | 5,293 |
| **Cash and cash equivalents, end of year** | 4 (a) | 6,853,383 | 5,029 |

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 2014

## 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 2014 were approved and authorised by the Board of Directors on 5 September 2014.

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.

**Comparatives**
Comparative information for 2013 is for full year commencing on 1 July 2012.

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 2014 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 2014. Subsidiaries are all entities (including structured entities) over which the Group control. The Group controls an entity and has the ability to affect those returns through its power to direct the activities of the entity. 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 14 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.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the reporting period are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

### 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.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquire, and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

### 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.

Depreciation is calculated using the straight-line method to allocate asset costs over their estimated useful lives, as follows:

| | |
|---|---|
| Plant & equipment | 3-7 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, development 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.

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.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, 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, current legal requirements and technology on an undiscounted basis.

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.

### h) 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 interest method or cost. Fair value represents the amount for which an asset could be exchanged, or a liability settle, between knowledgeable willing parties. 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.

### i) 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.

### j) 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 balance 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.

### k) 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.

### l) 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.

### m) 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.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed as part of finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease. All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### n) 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.

### o) 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.

### p) 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.

### q) 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 balance 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 balance 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.

### r) 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.

### s) 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.

### t) 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.

### u) 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

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 12. 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.

### v) 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 2013:

- AASB 10 Consolidated Financial Statements;
- AASB 12 Disclosure of Interests - Other;
- AASB 13 Fair Value Measurement; and

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

### w) 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 2014, 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 2010). Consequential amendments arising from AASB 9 are contained in AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters, AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments and AASB 2014-1 Amendments to Australian Accounting Standards.*

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 (1) the objective of the entity's business model for managing the financial assets; and (2) 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).
- 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) and;
  - The remaining change is 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 will enable entities to better reflect their risk management activities in the financial statements.

The Group has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018.

*(ii)* *AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities.*

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

When AASB 2012-3 is first adopted for the year ending 30 June 2015, there will be no impact on the Group as this standard merely clarifies existing requirements in AASB 132.

*(iii) AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets*

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets.

When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the Group given that they are largely of the nature of clarification of existing requirements.

*(iv) AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C: Financial Instruments)*

These amendments:

- add a new chapter on hedge accounting to AASB 9 Financial Instruments, substantially overhauling previous accounting requirements in this area;
- allow the changes to address the so-called 'own credit' issue that were already included in AASB 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
- defer the mandatory effective date of AASB 9 from '1 January 2015' to '1 January 2017'.

Note that, subsequent to issuing these amendments, the AASB has issued AASB 2014-1 which defers the effective date of AASB 9 to '1 January 2018'

The Group has not yet assessed the full impact of these amendments

*(v) AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)*

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.
Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and
- amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the Group.

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

- *AASB 2014-1 Amendments to Australian Accounting Standards (Part E: Financial Instruments)*

Other standards issued by the IASB, but not yet by the yet AASB:

- *IFRS 15 Revenue from Contracts with Customers*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*

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.

## 2. INCOME TAX EXPENSE

| | **2014** **$** | **2013** **$** |
|---|---|---|
| (a) The components of income tax expense comprise: | | |
| Current income tax expense / (benefit) | (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) | (2,539,739) | (178,098) |
| Prima facie tax benefit on loss from ordinary activities before income tax at 30% | (761,922) | (53,429) |
| 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 | 161,376 | 53,429 |
| Deferred tax asset not realised as recognition criteria not met | 1,022,736 | - |
| Subtotal | - | - |
| Tax portion of capital raising cost | (422,190) | - |
| Tax benefit in relation to research and development | - | - |
| Income tax (benefit) / expense | (422,190) | - |
| (c) Deferred tax assets have not been recognised in respect of the following: | | |
| Tax losses | 10,002,890 | 6,593,771 |
| Deferred tax asset has not been recognised | 3,000,867 | 1,978,131 |

## 3. 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:

| | **2014** **#** | **2013** **#** |
|---|---|---|
| Weighted average number of shares used in basic earnings per share | 78,314,718 | 57,894,521 |
| Loss per share (cents) | 3.78 | 0.31 |

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

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

| | 2014 $ | 2013 $ |
|---|---|---|
| Cash at hand and in bank: | | |
| Cash at bank | 308,953 | 5,029 |
| Short-term deposits | 6,544,430 | - |
| Cash and cash equivalents | 6,853,383 | 5,029 |

(a) Reconciliation of cash at the end of the period.

The above figures are reconciled to cash at the end of the financial period as shown in the statement of cash flows as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | 6,853,383 | 5,029 |

## 5. TRADE AND OTHER RECEIVABLES

Trade and other receivables include the following:

| | | |
|---|---|---|
| Trade receivables | 30,815 | - |
| Other receivables | 261,147 | 977 |
| Total receivables | 291,962 | 977 |

No receivables are considered past due and / or impaired.

## 6. PLANT AND EQUIPMENT

| 2014 | Plant & Equipment $ | Plant under construction $ | Motor vehicles $ | Office equipment $ | Software | Total $ |
|---|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | | |
| Opening balance | 72,802 | - | 9,219 | 3,697 | - | 85,718 |
| Additions | 73,821 | 1,675,027 | 82,430 | 5,545 | 51,000 | 1,887,823 |
| Balance 30 June 2014 | 146,623 | 1,675,027 | 91,649 | 9,242 | 51,000 | 1,973,541 |
| **Depreciation and impairment** | | | | | | |
| Opening balance | (69,374) | - | (9,219) | (3,697) | - | (82,290) |
| Depreciation | (4,530) | - | (1,911) | (676) | (9,152) | (16,269) |
| Balance 30 June 2014 | (73,904) | - | (11,130) | (4,373) | (9,152) | (98,559) |
| **Carrying amount 30 June 2014** | 72,719 | 1,675,027 | 80,519 | 4,869 | 41,848 | 1,874,982 |

| 2013 | Plant & equipment $ | Motor vehicles $ | Office equipment $ | Total $ |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| Opening balance | 72,802 | 9,219 | 3,697 | 85,718 |
| Additions | - | - | - | - |
| Balance 30 June 2013 | 72,802 | 9,219 | 3,697 | 85,718 |
| **Depreciation and impairment** | | | | |
| Opening balance | (65,292) | (9,219) | (3,697) | (78,208) |
| Depreciation | (4,082) | - | - | (4,082) |
| Balance 30 June 2013 | (69,374) | (9,219) | (3,697) | (82,290) |
| **Carrying amount 30 June 2013** | 3,428 | - | - | 3,428 |

## 7. EXPLORATION AND EVALUATION EXPENDITURE

| | 2014 $ | 2013 $ |
|---|---|---|
| Opening balance | 192,129 | - |
| Expenditure on exploration during the year | 164,634 | 192,129 |
| Closing balance | 356,763 | 192,129 |

## 8. TRADE AND OTHER PAYABLES

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

| | | |
|---|---|---|
| Trade and other payables | 657,213 | - |
| Accrued expenses | 15,674 | 82,524 |
| Total trade and other payables | 672,887 | 82,524 |

## 9. SHORT TERM PROVISIONS

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

| | | |
|---|---|---|
| Opening balance | - | - |
| Additional provisions – employee entitlements | 1,878 | - |
| Closing balance | 1,878 | - |

## 10. BORROWINGS

The Group's borrowings represent hire purchase of motor vehicles.

| | 2014 $ | 2013 $ |
|---|---|---|
| Current component of borrowing | 20,606 | - |
| Non-current component of borrowing | 41,212 | - |
| Total borrowings | 61,818 | |

Loan payable to Strategic Energy Resources Limited. The carrying amounts may be analysed as follows:

| | | |
|---|---|---|
| Opening balance | 282,380 | - |
| Drawdown of loan | 69,770 | 282,380 |
| Repayment of loan | (352,150) | - |
| Closing balance | - | 282,380 |

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 have agreed to advance up to $750,000 at a rate of interest of 13% per annum. The full amount of the outstanding loan is due for repayment on or before 31 December 2014 and was repaid on 3 October 2013.

## 11. ISSUED CAPITAL

| | Number of shares | 2014 $ |
|---|---|---|
| **(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 |

| | Number of shares | 2013 $ |
|---|---|---|
| **(a) Issued and paid up capital** | | |
| Fully paid ordinary shares | 217,889,316 | 3,228,050 |
| | 217,889,316 | 3,228,050 |

**(b) Movements in fully paid shares**

| | | |
|---|---|---|
| Opening balance | 435,778,124 | 3,228,050 |
| Consolidation of capital | (217,888,808) | - |
| Balance as 30 June 2013 | 217,889,316 | 3,228,050 |

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.

## 12. RESERVES

**Balance of share based payments reserve**

| | 2014 $ | 2013 $ |
|---|---|---|
| Opening balance | - | - |
| Issue of options during the year | 766,180 | - |
| Issue of performance rights during the year | 440,000 | - |
| Exercise of performance rights | (110,000) | - |
| Closing balance | 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:

| **Share Option Reserve** | **Number of options** | **2014 $** | **Weighted average exercise price** |
|---|---|---|---|
| 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 |

There were no options on issue at 30 June 2013.

During the reporting period, the following options were issued:

- 3,000,000 unlisted options (escrowed to 6 January 2016) issued to previous Directors as remuneration. These options have vested.
- 3,500,000 unlisted options issued to current Directors as remuneration. These options have KPI based vesting conditions. 500,000 of these options vested during the year due to satisfaction of KPI condition and 950,000 options lapsed due to the KPI condition not being met.
- 16,250,000 listed options (escrowed to 6 January 2016) were issued to underwriters of the IPO.

| **Performance Rights Reserve** | **Number of rights** | **2014 $** |
|---|---|---|
| Opening balance | - | - |
| Issued to Managing Director & 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 |

Performance rights were issued as Director remuneration with related KPI's as detailed in the Directors' Report.

There were no performance rights on issue at 30 June 2013.

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.

## 13. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

**Operating activities**

| | 2014 $ | 2013 $ |
|---|---|---|
| Loss after tax | (2,961,929) | (178,098) |
| Share based payments expense | 671,457 | - |
| Tax effect of capital raising costs | 422,190 | - |
| Capital raising costs expensed | 427,505 | - |
| Depreciation expense | 16,269 | 4,082 |
| Net change in working capital | (26,263) | 173,752 |
| Net cash used in operating activities | (1,450,771) | (264) |

## 14. INVESTMENTS IN CONTROLLED ENTITIES

(a) Controlled Entities

The Company has the following subsidiaries:

| Name of Subsidiary | Country of Registration | Class of Shares | Percentage held 2014 |
|---|---|---|---|
| Valence Industries Operations Pty Ltd | Australia | Ordinary | 100% |
| Valence Industries Services Pty Ltd[1] | Australia | Ordinary | 100% |
| Valence Industries Commercialisation Pty Ltd[1] | Australia | Ordinary | 100% |

These subsidiaries were registered during 2013/14 and therefore the % held in 2012/13 is 0%.

## 15. AUDITOR REMUNERATION

| | 2014 $ | 2013 $ |
|---|---|---|
| **Audit services** | | |
| Auditors of Valence Industries Limited – Grant Thornton | | |
| - Audit and review of Financial Reports | 26,500 | 10,670 |
| **Audit services remuneration** | 26,500 | 10,670 |
| **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) | 19,520 | - |
| **Total other services remuneration** | 29,270 | - |
| **Total remuneration received by Grant Thornton** | 55,770 | 10,670 |

## 16. 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 a 9 month operating lease in relation to rental premises at Port Lincoln commencing in March 2014 and the Company's head office at 60 Hindmarsh Square, Adelaide in April 2014. Minimum lease payments recognised as an expense during the period amount to $12,474. Remaining amounts due are:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Within one year | 18,711 | - |
| After one year but not more than five years | - | - |
| Longer than five years | - | - |
| | 18,711 | - |

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

Contingent liabilities

The Group has no contingent assets or liabilities.

## 17. 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:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Short-term benefits | 676,314 | 72,523 |
| Post employment benefits | 63,672 | - |
| Share based payments | 657,707 | - |
| Total remuneration | 1,397,693 | 72,523 |

The following transactions occurred with KMP:

| | 2014 $ | 2013 $ |
|---|---|---|
| Payment for professional services to entities associated with related parties | 708,267 | - |
| Payables for professional services at balance date | 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 current 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 2 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 2014 (2013: $282,380) and the loan facility with SER has terminated upon repayment of the loan.

## 18. EMPLOYEE REMUNERATION

*(a) Employee benefits expense*

| Expenses recognised for employee benefits are analysed below: | 2014 $ | 2013 $ |
|---|---|---|
| Salaries / contract payments for Directors and employees | 587,678 | 72,524 |
| Share based payments – Director and employee options and performance rights | 671,457 | - |
| Defined contribution superannuation expense | 38,125 | - |
| Employee entitlement provisions | 11,596 | - |
| Less: Transfer to exploration assets | (47,800) | - |
| | 1,261,056 | 72,524 |

*(b) Share based employee remuneration*

As at 30 June 2014 the Group maintained a performance rights and option plan for employee and director remuneration. There were 2,750,000 performance rights and 6,500,000 unlisted options granted to Directors as remuneration.

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

| | Values |
|---|---|
| Fair value | $0.035 |
| Exercise price | $0.25 |
| Option life | 2.6 years |
| Underlying share price | $0.20 |
| Expected share price volatility | 50% |
| Risk free interest rate | 2.85% |

Share options and weighted average exercise prices are as follows:

| **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 |

There were no options on issue in 2012/13.

*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.

*Fair value of performance rights granted*
The fair value at grant date of the Director performance rights is $0.20 per right being the value of the underlying shares upon successful listing of the Company on ASX.

## 19. 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** | **2014 $** | **2013 $** |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 4 | 6,853,383 | 5,029 |
| Trade and other receivables | 5 | 291,962 | 74,112 |
| | | 7,145,345 | 79,141 |
| **Financial liabilities** | | | |
| Trade and other payables | 8 | 672,887 | 82,524 |
| Borrowings | 10 | 61,818 | 282,380 |
| | | 734,705 | 364,904 |

**Financial risk management policy**
Risk management is carried out by the Managing Director &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 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 2014 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.\

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

| **2013** | | **Effect on:** | |
|---|---|---|---|
| | **Sensitivity*** | **Profit $** | **Equity $** |
| Interest rate | + 1.50% | - | - |
| | - 1.50% | - | - |

*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

Fair values are amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The net fair values of financial assets and liabilities are determined by the Group based on the following:

i) Monetary financial assets and financial liabilities not readily traded in an organised financial market are carried at book value.
ii) Non-monetary financial assets and financial liabilities are recognised at their carrying values recognised in the Statement of financial position.

The carrying amount of financial assets and liabilities is equivalent to fair value at reporting date.

## 20. PARENT ENTITY INFORMATION

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

| | 2014 $ | 2013 $ |
|---|---|---|
| **Statement of financial position** | | |
| Current assets | 9,564,206 | - |
| Total assets | 9,569,074 | - |
| Current liabilities | 211,603 | - |
| Total liabilities | 252,815 | - |
| Issued capital | 13,898,624 | - |
| Retained losses | 5,678,544 | - |
| Share based payment reserve | 1,096,180 | - |
| **Statement of profit of loss and other comprehensive income** | | |
| Loss for the period | 2,450,494 | - |

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.

## 21. GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of a going concern. During the year ended 30 June 2014 the consolidated group recorded a net cash outflow from operating and investing activities of $3,044,395 and an operating loss of $2,961,929.

The forward looking cash projections of the group indicate that it is reliant on the completion of further capital raising for continued operations. The group will be seeking to raise funds 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.

## 22. 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.

## 23. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

Since the end of the financial year, the Company issued 250,000 ordinary shares upon the exercise of listed options and allotted the shares on 25 July 2014.

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 2014 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 2014.

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
5 September 2014

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 consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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 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.

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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 2014 and of its 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.

**Emphasis of matter**
Without qualification to the audit opinion expressed above, we draw attention to Note 21 to the financial report which indicates that the consolidated entity incurred a net loss of $2,961,929 during the year ended 30 June 2014 and, as of that date, the consolidated entity cash outflows from operating and investing activities equates to $3,044,395. These conditions, along with other matters as set forth in Note 21, 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.

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**Report on the remuneration report**

We have audited the remuneration report included in pages 10 to 16 of the directors' report for the year ended 30 June 2014. 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 2014, 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, 5 September 2014