



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX ANNOUNCEMENT

ASX: VXL & VXLO

Friday, 31 October 2014

\$35M PHASE II FUNDING UPDATE

- Valence Industries has short-listed term sheets from a number of debt providers to establish \$35M in senior finance facilities for the proposed Phase II expansion in 2015.
- The short-listed funding facilities correspond to the anticipated capital cost requirements for construction of the proposed Phase II full-scale 50,000tpa flake graphite plant.

Valence Industries has received multiple proposals from financiers and has committed to establish \$35M in senior debt facilities from short-listed proponents to fund construction of the proposed Phase II full-scale process plant.

Valence Industries has welcomed the commitment by senior debt providers for the finance facilities for the Phase II expansion program. The company is working closely with the short-listed financiers and will continue to retain the right to assess and negotiate competitive terms and proposals as due diligence is performed by the financiers' experts on the Phase II feasibility study program and the sales contract program established by Valence Industries as part of the conditions precedent to funding.

The proposed debt facilities will have other typical conditions including due-diligence, security, draw-down and project completion requirements. The names of the selected senior debt providers will be released ahead of financial close currently scheduled for early 2015 and Valence Industries will continue to assess project acceleration options ahead of such funding.

This development allows Valence Industries to adopt the most flexible and appropriate funding models to deliver sustainable shareholder value. Valence Industries will assess the terms of the proposed facilities and sources of capital, which may include equity, debt or trade finance to determine the optimum funding mix to meet potential acceleration of construction and working capital requirements heading into Phase II.

The Company is also pleased to note the successful conduct of extensive construction testing and pre-commissioning of the Phase I plant.

Once regulatory approval is received the ramp-up of Phase I will commence with fines re-processing over at least 30 days and moves to staged run of mine production over a planned ramp-up period of 3 to 4 months to meet the full production capacity rate of 14000 tpa. A similar program for ramp-up will be followed for the Phase II facilities.

For further information, please contact:

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The information in this announcement that relates to the in situ 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. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. All material assumptions and technical parameters underpinning the Mineral Resource estimates in that previous release continue to apply and have not materially changed.

Competent Persons Statement – In-Fill Drilling Campaign

The information in this announcement that relates to the Mineral Resources pertaining to the Company's in-fill drilling campaign results is based on information compiled by Ms Karen Lloyd, who has been engaged as General Manager – Technical Delivery by Valence Industries. Ms Lloyd is a Member of the Australian Institute of Mining and Metallurgy. Ms Lloyd has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activities being undertaken to qualify as Competent Persons as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ms Lloyd consents to the inclusion in this release of the matters based on their information in the form and context as it appears.



VALENCE INDUSTRIES

Valence Industries – Manufacturing Our Carbon Future™

Valence Industries (ASX:VXL & VXLO) operates as an industrial manufacturer of high-grade flake graphite products for distribution and sale to global markets. The Company is the 100% owner of established mining, processing and manufacturing facilities and infrastructure to produce a wide range of graphite product lines for multiple applications and multiple industries.

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 produces and sells its graphite products from its Uley Graphite™ facilities 15 minutes from Port Lincoln in regional South Australia for delivery to diversified markets for graphite in the Asia Pacific, Europe and North America. Valence Industries is in the fortunate position of owning the land on which its current and proposed expanded operations are conducted along with the extensive existing infrastructure.

In April 2014, 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. In August 2014 the Company also signed MoUs for the supply of 80,000 tonnes of graphite over a period of 2+ years.

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. 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.

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

Phase I – Established 14,000t Graphite Plant

During 2014 Valence Industries focused on recommencing graphite production by bringing its existing Uley Graphite manufacturing and processing plant off care and maintenance. The existing Phase I Plant has a projected capacity to produce 14,000 tonnes of flake graphite concentrate per year following the staged ramp up to full production capacity. The Phase I plant was well maintained and, with the engineering and reconstruction program implemented by Valence Industries in 2014, the Primary Processing Circuit has been redesigned and replaced and the Secondary Processing Circuit has been fully refurbished and tested.

As part of the Phase I program the Company has conducted a successful local recruitment campaign. Significant numbers of highly qualified local applicants have been assessed and the first shifts are ready to commence work without the need for any FIFO workforce. The vast majority of the site operations personnel have come from Port Lincoln and will make the short 15 minute drive to work each day.

The Phase I program is designed to first process existing ROM stockpiled raw materials. The Company holds substantial stockpiles from the historical mining campaigns and has the ability to process that material for 9+ months. Importantly the ROM stockpiles are at a lower grade than the proposed new Phase II Uley Pit 2 and as Valence Industries opens that new pit and provides new higher-grade material to the Phase I plant it will become increasingly competitive ahead of production from the proposed Phase II plant.



The Phase I plant will provide commercial quantities of processed Uley graphite for pre-qualification by customers in advance of larger scale production from the proposed Phase II plant, to be completed in 2015. The Company is waiting on the final regulatory works approval and will then ramp up its Phase I commissioning and production programs. Production remains scheduled to commence in the second half of 2014.

Phase II – Expanded Mining & 50,000t Graphite Plant

In conjunction with the Phase I program to restart operations at the Uley Graphite facilities Valence Industries is completing the feasibility study for the proposed Phase II expansion of production.

The feasibility study builds 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.

During 2014 Valence Industries completed the Phase II in fill drilling campaign for definition of Uley Pit 2. That program was very successful and identified significant high grade flake graphite material across the area of its existing JORC (2012) Mineral Resource with grades exceeding 47% graphitic carbon. The in-fill drilling campaign also led to a new discovery of a previously unknown zone of exceptionally high-grade flake graphite in *mineralised pegmatite* zone. The new graphite zone has grades in excess of 62% graphitic carbon and the flake graphite products from that zone are being described as Valence Industries *Arterial Flake™*.

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. The Phase II Plant is planned to have an initial capacity in Phase IIA to produce 50,000 tonnes p.a.

Phase III – High Purity Graphite Programs

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. The Phase III 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.

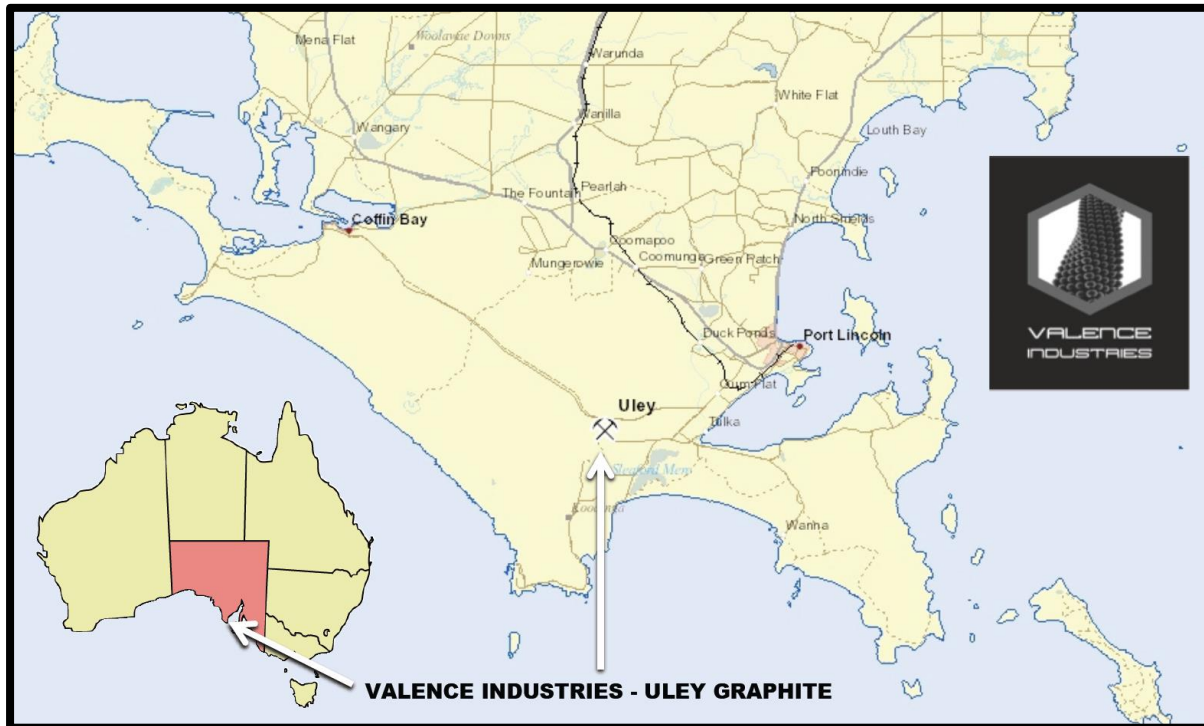
Phase IV – Advanced Graphene Program

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.



VALENCE INDUSTRIES

ULEY GRAPHITE™

MINING & MANUFACTURING SITE
SOUTH AUSTRALIA, AUSTRALIA