



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX: VXL & VXLO

30 January 2015

Valence Industries Quarterly Activity Report

For the Quarter Ending 31 December 2014

Graphite producer, Valence Industries Limited (ASX: VXL) ("**Valence Industries**", "**the Company**") is Australia's only graphite production company. The Company is bringing the Uley Graphite™ mine back into production.

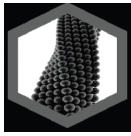
The strategy is to maximise production and sales from the Phase I plant, build and deliver increased production from Phase II and develop Phase III advanced manufacturing capacity for specialist, high purity and micronised graphite products.

Valence Industries' goal is to become a leading global graphite production company and manufacturer of advanced, high-margin graphite related products.

Quarter Highlights

- South Australian Government approval granted to commence production at Uley Graphite™ mine.
- Commencement of commissioning at the 14,000tpa Phase I plant on 25 December 2014.
- Completion of economic Feasibility Study for expansion of Uley Graphite™ site for;
 - Phase II expanded production; and
 - Phase III advanced product handling and manufacturing including high purity production and micronisation.
- Maiden high grade Ore Reserve of; 261,000t @ 12.9% graphitic Carbon (gC) confirmed at Uley Pit 2
 - Reserve to support an initial 5+ year mine life
 - Uley Pit 2 Extension drilling currently underway and is expected to extend mine life
- Recruitment of operational personnel for 24/7 shift operations
- Appointment of Ian Pattison as a Non-Executive Director
- Cash of \$8.32m at 31 December 2014.

The Phase I plant is currently reprocessing raw material from existing fines stockpiles, with 10 tonnes produced since mid-January. The production rate will continue to be ramped up progressively, and the Company is pleased with the initial performance of the plant.



Uley Operations

Feasibility Study for expanded operations delivered

On 31 December 2014 Valence Industries delivered its Feasibility Study for expansion of its existing operations and for further advanced product handling and manufacturing treatment of its flake graphite products.

The Feasibility Study defined an advanced manufacturing program with two key aspects: the expansion of base flake graphite concentrate production at the Uley Graphite™ site, and a combined advanced product manufacturing and handling and high purity and micronisation facility to be established at the port of Adelaide.

The Feasibility Study reflects Valence Industries' continued focus on a program of advanced manufacturing, which shifts the emphasis from bulk tonnages to higher value added product lines and increased margins.

Expansion of facilities at the Uley Graphite™ site is expected to provide additional processing capacity in 25,000 tpa increments of graphite output to reach 64,000 tpa. The Phase II plant is also designed to deliver significant advances in quality and output reliability with reduced processing costs compared to the existing Phase I plant. The combined Capex for the Phase II plant expansion and to establish Uley Pit 2 open pit mine will be \$37 million.

The need to deliver efficient supply of multiple flake graphite products (with certainty of cost and reliable, timely delivery) has determined that an Advanced Product Handling facility be established near the company's export port at Adelaide. In addition Valence Industries will establish a high purity and micronisation plant at the Advanced Product Handling Facility to provide further refinement and post-processing for further value-added product lines. The Capex for the Phase III program is \$13M.

Direct operating costs identified in the Feasibility Study are significantly lower than current Phase I operations, and are expected to average in the range of A\$400/t to A\$500/t at mine gate and in the range of A\$750/t to A\$950/t FOB in Port Adelaide.

The Feasibility Study also included an analysis of the global graphite market. It confirmed that the graphite market is facing a shortfall in supply over the next few years, and that Valence Industries is well placed relative to other emergent graphite producers, as it has the ability to provide material to customers now from existing production facilities.

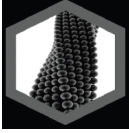
Full details on the Feasibility Study are available in the Company's ASX announcement of 2 January, 2015.

Opening of Uley Graphite™ Mine and Commissioning of Phase I Plant

The Uley Graphite™ mine was formally opened on 25 November and has received strong community and government support. The mine is Australia's only graphite mine and the opening marked a significant point in the Company's development timeline.

Commissioning and initial production commenced on 25 December 2014 after the Company received regulatory approvals from the South Australian government (ASX announcement, 24 December, 2014).

Using the pre-processed fines stockpiles at site the Flotation Circuit, Product Thickening, Drying, Screening and Bagging are now operational. The flake graphite output grades of



reprocessed fines are consistent with targeted purity rates with significant proportions currently reporting in large flake sizes, including +35 Mesh, +50 Mesh and +80 Mesh. The reprocessing of the fines stockpiles is the first step in the production program and due to the already high purity levels, is producing at a rate less than the output capacity of the plant.



Fines Reprocessing in Flotation Circuit



Reprocessed Fines in Thickener

Over coming weeks, commissioning is expected to shift to incorporate the unprocessed run-of-mine stockpiles and the full primary processing circuit. The ball mill has been charged and the feed stock from run-of-mine stockpiles is being screened, resized and assayed in preparation for the production program. Currently 12,500 tonnes from run-of-mine stockpiles have been prepared as feed stock.

Plant commissioning has been combined with the commissioning of new laboratory facilities at Uley. The new laboratory facilities will allow the Company to meet operational and customer requirements for QA/QC certification.



Screening & Resizing of ROM Stockpiles



Assayed Feed Stock ROM

The full commissioning of the Uley Phase I plant will be completed in Q1, 2015 with first export shipments scheduled for Q1 2015. Currently 90 tonnes from the fines stockpiles has been reprocessed in the commissioning program ahead of dispatch to customers.



Bagging of Production – 1 tonne Bulka bags

Maiden high grade Ore Reserve delivered

During the December quarter the Company delivered its maiden graphite Ore Reserve at the Uley Graphite™ site of 2.035Mt at an average grade of 12.9% gC (graphitic Carbon), for 261,000 contained tonnes of graphite. It is notable that this Ore Reserve is the only graphite Ore Reserve issued under JORC 2012 by any ASX listed company or by any TSX or TSXV company (under the equivalent NI 43-101 program).

Also, during the quarter, a further drilling program drilling was commenced at the Uley Pit 2 Extension. Results from this program are expected to be available by late March for the zone at the north on Uley Pit 2, and by June for the larger Uley Pit 2 Extension to the south. It is the Company's aim to upgrade the Uley Resource and Reserve statements based on the results of the drill program.

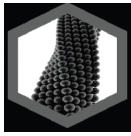
Safety & Environment

In the quarter Valence Industries obtained regulatory approval for its environmental protection and rehabilitation programs and is in the process of implementation the approved programs.

The Company achieved an excellent safety record in the quarter with no lost time injury at its Uley Graphite™ operations.

The Program for Environment Protection and Rehabilitation (**PEPR**) approval received on 23 December 2014 allowed commissioning to commence. Concerns about intersection of the ground water meant that an initial 16 metre depth limit was placed on the mine plan pending the results of hydrological studies at the Uley Pit 2 mine area. The full depth of the mine plan is up to 60 metres. A series of bores to monitor ground water depth and impact will be commenced this quarter. Currently, basement ground water is being encountered only at a depth of 150 metres.

The limitation on mine depth will be reviewed this year with the regulators and relevant approvals will be sought to continue mining below 16 metres. In the interim there is sufficient ore in the existing run-of-mine stockpiles and from mining to a depth of 16 metres to feed processing for more than 24 months.



In addition, monitoring stations will be put in place to allow environmental studies to confirm no contamination by hydrocarbons.

Environmental performance is an increasingly important facet of Valence Industries' marketing success with global customers. There is a growing demand for manufacturers to provide assurance of the provenance and environmental practices of their industrial inputs in environmentally significant applications and in consumer products. Therefore the careful stewardship of environmental standards is an important aspect of all the Company's operations.

Our People

In the quarter Valence Industries ramped-up its recruitment of personnel required for our operations. This incurred significant cost ahead of grant of approvals for production.

The Company now has a qualified team of site operations personnel who live on the Eyre Peninsula within commuting distance from the Uley plant.

Valence Industries' commitment to Port Lincoln and the Eyre Peninsula has also extended to engagement with a significant number of local and regional contractors.

Our Customers

In the quarter, Valence Industries increased customer commitments across a range of industries and regions.

Product qualification in the graphite market is an essential precursor to the confirmation of larger scale product supply contracts. The length of the qualification process differs between industries depending on the complexity of the manufacturing process. This means our qualifications are being staggered to recognise differing approval periods and to meet our increasing capacity to produce.

The process of qualification has involved shipment of samples to 15 new customers engaged in a range of industries from refractories to advanced engineering. Currently Valence Industries has achieved qualification with 9 global customers across 4 key industry segments in 8 product categories. More qualifications are expected in the next quarter. As production rates are progressively increased the qualification program is structured to lead to new sales contracts in addition to conversion of the current MOUs that already contemplate more than 80,000 tonnes of graphite sales over 3 years.

Valence Industries has a market development strategy involving active engagement with European, Asia Pacific and North American customers and multiple industries. This global reach and industry diversity is designed to achieve optimum prices for the high quality flake graphite produced by Valence Industries and to manage the Company's exposure to any particular market segment or region.



Finance and Corporate

CASH STATEMENT

Valence Industries had \$8.32 million cash on hand as at 31 December 2014.

As part of the Company's obligations under the Uley Graphite™ Program for Environment Protection and Rehabilitation (PEPR) approved on 23 December 2014 a rehabilitation bond of \$1.709M was lodged.

A term deposit held as security against that bond has been classified as restricted cash in the Company's balance sheet and therefore as a cash outflow in the attached Appendix 5B.

Recruitment and pre-commissioning ahead of permitting incurred expenses of over \$0.9M

Expenditure on exploration activities during the quarter amounted to \$158,000.

Payment for plant and laboratory programs as part of the pre-commissioning, construction testing and installation of equipment, particularly in conjunction with the primary processing circuit, amounted to \$3.5 million.

COMPLETION OF SPP

In Q3 2014 Valence Industries issued 17,142,844 shares to Institutional and sophisticated investors for a placement to raise \$12.0 million (before costs) at an issue price of \$0.70 per share (Placement).

A Share Purchase Plan was also offered to all eligible shareholders in Australia and New Zealand at a price of \$0.70 per share (SPP). That SPP was designed to allow all shareholders to participate in new securities in Valence Industries on the same terms as the offer to applicants under the placement. The SPP closed on 31 October 2014 raising a further \$687,500.

APPOINTMENT OF DIRECTOR

The Company appointed Ian Pattison as a Director on 10 December 2014. Mr Pattison is a solicitor and chartered accountant and has deep experience in capital markets having worked with Donaldson Lufkin Jenrette Inc and Greenwich based Paloma Partners LLC.

TENEMENT LISTING

TENEMENT NUMBER	TENEMENT NAME	BENEFICIAL INTEREST ¹	CHANGES DURING Q4 2014
ML 5561	Uley Graphite Mining Licence 1	100%	No change
ML 5562	Uley Graphite Mining Licence 2	100%	No change
RL 66	Uley Graphite Retention Licence 1	100%	No change
RL 67	Uley Graphite Retention Licence 2	100%	No change
EL 4778	Uley South Exploration Licence	100%	No change

¹ Interests held as at the end of the quarter



Capital Structure

Shares: 186,681,979

Listed options: 52,199,188

Unlisted options: 19,750,000

Board of Directors & Officers

Graham Spurling, AM
Non-executive Chairman

Christopher S. Darby
Chief Executive Officer & MD

Glenister Lamont
Non-executive Director

Ian Pattison
Non-executive Director

Ian Schache
Non-executive Director

Jarek Kopias
Company Secretary & CFO

For further information, please contact:

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Chief Executive Officer & MD
Valence Industries

Jarek Kopias
CFO & Company Secretary
Valence Industries

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Competent Persons Statement

Valence Industries confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed since the announcements previously released as "Valence Doubles Existing ROM Stockpiles" (6/8/14), "Uley Graphite Grade Increases to 11.7%" (17/11/14), "Maiden High Grade Graphite Ore Reserve" (17/12/2014) and "VXL Feasibility Study Expansion and Adv Manufacturing" (2/1/15).

Forward Looking Statements

All statements other than statements of historical fact included in this announcement including, without limitation, statements regarding future plans and objectives of Valence Industries Limited (Valence Industries) are forward-looking statements. When used in this announcement, forward-looking statements can be identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Valence Industries, that could cause Valence Industries' actual results to differ materially from the results expressed or anticipated in these statements.



Valence Industries cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Valence Industries does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this announcement, except where required by applicable law.



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

Valence Industries Limited

ABN

41 008 101 979

Quarter ended ("current quarter")

31 December 2014

Consolidated statement of cash flows

		Current quarter	Year to date
		\$A'000	(6 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(158)	(873)
	(b) development	(183)	(292)
	(c) production	(925)	(1,173)
	(d) administration	(788)	(1,586)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	110	193
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
		(1,944)	(3,731)
Net Operating Cash Flows			
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2,538)	(4,935)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
		(2,538)	(4,935)
Net investing cash flows			
1.13	Total operating and investing cash flows (carried forward)	(4,482)	(8,666)



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(4,482)	(8,666)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	696	12,785
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(5)	(10)
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	(631)	(930)
	Other (movement in restricted cash – bond)	(1,709)	(1,709)
	Net financing cash flows	(1,649)	10,136
	Net increase (decrease) in cash held	(6,131)	1,470
1.20	Cash at beginning of quarter/year to date	14,454	6,853
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	8,323	8,323

Note: Cash balance excludes \$1.709 million held against a bank guarantee for obligations under the approved PEPR for Uley Graphite™ operations which is treated as Restricted Cash in the Company's financial statements.

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	134
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' fees, superannuation and consulting fees paid to entities associated with Directors.	

Non-cash financing and investing activities

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

Nil

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

Nil



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,000
4.2 Development	1,500
4.3 Production	1,800
4.4 Administration	700
Total	5,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,147	1,654
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	7,176	12,800
Total: cash at end of quarter (item 1.22)	8,323	14,454

Changes in interests in mining tenements and petroleum tenements

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


Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report
Issued and quoted securities at end of current quarter

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

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	186,681,979	153,865,337		
7.4	Changes during quarter (a) Increases through issues - SPP - Options exercised (b) Decreases through returns of capital, buy-backs	982,187 36,598	982,187 36,598	70.00 cents 25.00 cents	70.00 cents 25.00 cents
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				



7.7	Options (description and conversion factor)	68,449,188 3,500,000 (vested)	52,199,188 -	Exercise price 25.00 cents 25.00 cents	Expiry date 31 July 16 31 July 16
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	36,598	36,598	25.00 cents	31 July 16
7.10	Expired during quarter	1,550,000 (31 Oct 14 KPI) 500,000 (30 Jun 15 KPI)	- -	25.00 cents 25.00 cents	31 July 16 31 July 16
7.7	Performance Rights (description and conversion factor)	-	-	Exercise price -	Expiry date (KPI based) -
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	687,500 687,500	-	Nil Nil	31 October 14 30 June 2015
7.11	Debentures (totals only)	-	-		
7.12	Unsecured notes (totals only)	-	-		



Compliance statement

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

Sign here: _____ Date: 30 January 2015

Company secretary

Print name: Jaroslaw (Jarek) Kopias

Notes

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